

Congress Should Address the Issue of Provisional Remedies for Intellectual Property Disputes Which are Subject to Arbitration

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I. INTRODUCTION

There is a great need for clarity in the laws protecting and fostering intellectual property, especially in a country that seeks to attract and retain valuable research and development (r&d) projects.¹ Because emerging forms of intellectual property may be worth hundreds of billions of dollars of national income and produce millions of jobs, a number of countries have recently recognized the importance of clear and reliable rules for intellectual property in international competition for new investment.² Moreover, a recent dominant trend in commercial transactions causes intellectual property disputes to be frequently resolved through private commercial arbitration.³ These two trends (toward sharp international

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¹ For example, the House Judiciary Committee, in reporting out the Economic Espionage Act of 1996 for final action, described its intention to protect and foster growth in the U.S. economy by carefully and thoroughly defining trade secrets and providing new federal statutory protections for trade secrets as a form of intellectual property. See H.R. REP. NO. 104-788, at 4-6 (1996), reprinted in 1996 U.S.C.C.A.N. 4021.

² See Paul B. Birden, Jr., *Trademark Protection in China: Trends & Directions*, 18 LOY. L.A. INT'L. & COMP. L.J. 431, 431 (1996) (stating that a country "hungry for technology" learns to protect intellectual property); *New Intellectual Property Law in Brazil*, 8 NO. 7 J. PROPRIETARY RTS. 34 (1996) (describing new Brazilian intellectual property law and the purpose of attracting new r&d investment in pharmaceuticals); *Virtually Fantastic*, THE ECONOMIST, Mar. 1, 1997, at 67-68 (describing new Malaysian government effort to create Multimedia Super Corridor and "intellectual property protection park" to attract research and development to Malaysia).

³ See William Grantham, *The Arbitrability of International Intellectual Property Disputes*, 14 BERKELEY J. INT'L LAW 173, 182 (1996); Camille A. Laturno, *International Arbitration of the Creative: A Look at the World Intellectual Property Organization's New Arbitration Rules*, 9 TRANSNAT'L LAW. 357, 370 (1996); E. Charles Routh, *Dispute Resolution—Representing the Foreign Client in Arbitration and Litigation*, SB04 ALI/ABA 571, 577-578 (1996) (listing growing international arbitration practice centers in Sweden, Canada, U.S., Australia, Malaysia, etc.); Nancy

competition for r&d investments and toward arbitration of intellectual property disputes) overlap in a well-developed public policy favoring protection of intellectual property in arbitration.⁴

The United States is a strong national competitor for new r&d investment and also has acted through Congress and the courts to support the freedom of parties to arbitrate intellectual property disputes.⁵ In the United States, one result of the trend toward arbitration of intellectual property disputes has been the clarification of the importance of "provisional remedies"⁶ in arbitration of such disputes.⁷ However, despite the clear need for provisional relief, there is a substantial split in U.S. authority as to the availability to arbitral parties of injunctive relief and other provisional remedies.⁸ In the international competition for new r&d investments, the United States is thus partially handicapped by some of its own courts.

Yeend & Cathy Rincon, *ADR and Intellectual Property: A Prudent Option*, 36 IDEA 601, 602 (1996).

⁴ See H.R. REP. NO. 97-542, at 13 (1982), reprinted in 1982 U.S.C.C.A.N. 765-777 (stating that 1982 Patent Act amendments permitting arbitration of patent disputes will "enhance the patent system" and "encourage innovation.") Congress also found that the "numerous advantages of arbitration" over litigation included cheapness, speed, flexibility and the trade and technical expertise of arbitrators. *Id.*

⁵ See Grantham, *supra* note 3, at 214-216 (setting out cases in U.S. courts supporting arbitrability of intellectual property disputes); Joseph T. McLaughlin, *Arbitrability: Current Trends in the United States*, 59 ALB. L. REV. 905, 939 (1996) (discussing trend toward arbitration of intellectual property disputes); Jennifer Mills, Note, *Alternative Dispute Resolution in International Intellectual Property Disputes*, 11 OHIO ST. J. ON DISP. RESOL. 227, 228 (1996) (describing U.S. and international trend).

⁶ "Provisional remedies" include injunctions, status quo orders, seizures, arrests, attachments, garnishments, replevin, sequestration, stays, escrow, bonds, security and orders for sale of perishable goods. See Douglas Reichert, *Provisional Remedies in the Context of International Commercial Arbitration*, 3 INT'L TAX & BUS. LAW. 368, 371 (1986). In this Article, the term "provisional remedy" will be used in lieu of other terms, including "interim relief" and "pre-award relief."

⁷ In 1996, one practitioner summarized the demonstrated need for provisional remedies as "compelling" and said that with intellectual property cases the need for provisional measures would "accelerate." David E. Wagoner, *Interim Relief in International Arbitration: Enforcement is a Substantial Problem*, DISP. RESOL. J., Oct. 1996, at 68, 72 (1996).

⁸ See cases discussed *infra* Section III. For example, some courts that do not hesitate to enjoin infringement of intellectual property rights in lawsuits will withhold the same relief to arbitral parties in intellectual property cases.

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The minority of courts that withhold provisional remedies in arbitration do so in violation of the Federal Arbitration Act (FAA) and the New York Convention of 1958 (Convention).⁹ There is a vast literature on the need for provisional remedies in arbitration, and on the need for the Supreme Court to resolve the split in the appeals courts.¹⁰ This Article has little to add to that body of advocacy. Instead, the purpose of this Article is to urge Congress to enact amendments to the FAA that will resolve the issue and remove the handicap.

In order to demonstrate the need for the proposed amendments, intellectual property disputes will be analyzed as the primary examples of the ill effects of current confusion over this issue. Following from this case analysis, specific statutory amendments to clarify the law and policy arguments in support of the proposed amendments are offered in Sections IV and V.

Analysis of the provisional remedy issue leads to the conclusion that Congress can remove a needless competitive handicap in the competition for new r&d investment and fulfill American obligations under international treaties, by enacting the proposed amendments. Through the same amendments, Congress can attract r&d investments to the United States. The new legislation would also make it easier for attorneys and businesses to predict the outcome of commercial arbitration disputes and reduce the costs of conducting commercial arbitrations in the United States. Overall, the amendments would greatly strengthen and reinforce the arbitration policy choices made by Congress in the last seventy years.

II. THE COMMERCIAL ARBITRATION SETTING FOR INTELLECTUAL PROPERTY DISPUTES

Arbitration of commercial disputes arising in interstate and international commerce is commonplace.¹¹ In the last twenty years, the United States has

⁹ See *infra* Section IV.

¹⁰ See GARY B. BORN, INTERNATIONAL COMMERCIAL ARBITRATION IN THE UNITED STATES 753 n.1 (1994) (citing to academic literature on provisional remedies law in the United States). A recent summation of the law of provisional remedies is found in Charles H. Brower, II, *What I Tell You Three Times is True: U.S. Courts and Pre-Award Interim Measures under the New York Convention*, 35 VA. J. INT'L L. 971, 976-997 (1995). Section IV of this Article presents a brief summary of the appellate cases which address these issues.

¹¹ See Tom Arnold, *Alternative Dispute Resolution in Intellectual Property Cases*, in PATENT LITIGATION 1991, at 437, 449 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 321, 1991). Arnold reported that the

joined a global trend toward allowing privately appointed arbitrators to finally resolve intellectual property disputes between private, commercial parties.¹² Thus, intellectual property is commonly the subject of commercial arbitration in the global economy, and arbitration rulings frequently resolve who has what rights to many forms of intellectual property.¹³

Commercial parties transacting business in interstate and international commerce designate private arbitration as the exclusive means of dispute resolution in order to save costs, prevent delay, preserve commercial privacy and obtain a better "quality" of decisions.¹⁴ For example, many experienced legal practitioners assert that expert arbitration panels produce better decisions than federal courts and juries in patent cases.¹⁵ Many owners of intellectual property, including licensees who pay for use of the

American Arbitration Association (AAA), the International Chamber of Commerce (ICC) and the Judicial Arbitration and Mediation Service (JAMS) together received over 100,000 arbitration cases per year. See William K. Slate, II, *International Arbitration: Do Institutions Make A Difference?*, 31 WAKE FOREST L. REV. 41, 47-52 (1996) (presenting a description of frequency of arbitration of disputes).

¹² See Grantham, *supra* note 3, at 199-220 (surveying the international trend and the U.S. role in the trend). Leading cases supporting arbitration of intellectual property disputes include *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191 (7th Cir. 1987) (copyrights); *Rhone-Poulenc Specialties Chimiques v. SCM Corp.*, 769 F.2d 1569 (Fed. Cir. 1985) (patents); *Kamikazi Music Corp. v. Robbins Music Corp.*, 684 F.2d 228 (2d Cir. 1982) (copyrights).

¹³ See generally *supra* note 5.

¹⁴ See, e.g., Arnold, *supra* note 11, at 450-453, 457-458 (stating that advantages for intellectual property cases include cost, time, quality, contractual freedom and confidentiality); Mark A. Buchanan, *Public Policy and International Commercial Arbitration*, 26 AM. BUS. L.J. 511, 512 (1988) (stating that arbitration is preferred dispute resolution method in international transactions); James H. Carter, *Dispute Resolution and International Agreements*, in INTERNATIONAL COMMERCIAL AGREEMENTS 1995, at 435, 439-440 (PLI Commercial Law & Practice Course Handbook Series No. 726, 1995) (listing predictability, competence, party participation, finality, enforceability, costs, and privacy as reasons for preference for commercial arbitration); Paul E. Mason, *International Commercial Arbitration: A Corporate Counsel's View*, 13 ACCA Docket 8, 8-9 (1995) (listing advantages of arbitration over national court systems, including time, cost, expert neutrals and privacy, among others).

¹⁵ See, e.g., Arnold, *supra* note 11, at 444-446, 450-453.

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property, prefer arbitration to the relatively high-cost and relatively low-quality litigation solution offered in the U.S. court system.¹⁶

The general commercial preference for arbitration has the full support of U.S. public policy as reflected in the United States Code. In the 1925 FAA, Congress required federal and state courts to honor the written election of arbitration in commercial transactions.¹⁷ In 1970, the Senate ratified the New York Convention, which requires all signatory countries to honor and enforce arbitration agreements and awards in international commerce.¹⁸ In 1971, Congress enacted Chapter 2 of the FAA, implementing the New York Convention through the United States Code.¹⁹ Then, in 1982, Congress amended the Patent Act to provide for private arbitration of patent disputes.²⁰ Moreover, in the last twenty years, the Supreme Court has repeatedly reminded the lower courts that arbitration is a choice favored by the public policy of the United States, as evidenced by treaty and statute.²¹

In short, the legal setting in the United States is clearly favorable to commercial arbitration, including the use of arbitration to resolve intellectual property disputes. The legal setting is so favorable that practical legal treatises and formbooks contain a number of examples of arbitration

¹⁶ See H.R. REP. NO. 97-542, *supra* note 4, at 13 (describing superiority of arbitration to litigation for patent disputes).

¹⁷ See 9 U.S.C. §§ 1-8 (1994). Congress intended to overrule all common law hostility to arbitration in transactions affecting commerce and to enlist the courts in the task of assisting in the maintenance of a strong arbitration system. See H.R. REP. NO. 68-96, at 1-2 (1924).

¹⁸ See Convention on Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, 21 U.S.T. 2517, 330 U.N.T.S. 3.

¹⁹ See 9 U.S.C. §§ 201-208 (1994).

²⁰ See 35 U.S.C. § 294 (1994) (codifying Pub. L. No. 97-247, § 17(b)(1), 96 Stat. 317, 322 (1982)).

²¹ See generally *Mastrobuono v. Shearson Lehman Hutton, Inc.*, 514 U.S. 52 (1995) (stating that a punitive damages claim is arbitrable); *Allied-Bruce Terminix Cos. Inc. v. Dobson*, 513 U.S. 265 (1995) (holding that the FAA preempts state laws that prohibit arbitration permitted by the FAA); *Rodriguez de Quijas v. Shearson/American Express*, 490 U.S. 477 (1989) (holding that securities law claim under 1933 Securities Act is arbitrable); *Shearson/American Express v. McMahon*, 482 U.S. 220 (1987) (holding civil racketeering and securities laws claims subject to arbitration contract); *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth Inc.*, 473 U.S. 614 (1985) (enforcing promise to arbitrate an antitrust claim); *Scherk v. Alberto-Culver Co.*, 417 U.S. 506 (1974) (finding that the FAA requires enforcement of contract to arbitrate securities dispute in international commerce). Additional decisions on arbitrability are reviewed in *McLaughlin*, *supra* note 5, at 907-915.

clauses specifically crafted to deal with intellectual property disputes.²² The case reports of the last decade also show that a number of pending commercial contracts contain well-designed dispute resolution provisions for such disputes.²³

Although the setting is favorable, there are some practitioners that express continuing practical objections to arbitration as a means to resolve commercial disputes in general, including intellectual property disputes.²⁴ Serious reservations about arbitration include the necessity for anticipating the outlines of future disputes in selecting a proper forum and governing law, and the difficulty of anticipating needs for discovery and disclosure in arbitration.²⁵ However, these objections can be overcome through drafting and negotiation of particular contracts.²⁶

Another more serious objection is that some American courts withhold provisional remedies from parties that have elected to arbitrate disputes.²⁷ Because some courts cite lack of subject matter jurisdiction as the reason to

²² See, e.g., ROBERT M. RODMAN, *COMMERCIAL ARBITRATION WITH FORMS* § 26.2 (1995); Tom Arnold, *Suggested Form of Contract to Arbitrate a Patent or Other Commercial Dispute*, 2 TEX. INTELL. PROP. L.J. 205 (1994); James S. Hilboldt, Jr., *The Patent License: Key Clauses*, in TECHNOLOGY LICENSING & LITIG. 1996, at 293, 326-328 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 431, 1996) (model arbitration clause); Reichert, *supra* note 6, at 395-396 (describing drafting solutions for provisional remedies issue and suggesting that Supreme Court resolve conflict in appellate decisions to make the drafting solutions workable).

²³ See, e.g., *Remy Amerique v. Touzet Distribution*, 816 F. Supp. 213, 215 (S.D.N.Y. 1993) (regarding arbitration clause for international distribution agreement for wines, spirits and liquors); *Compuserve, Inc. v. Vigny Int'l Finance Ltd.*, 760 F. Supp. 1273, 1276-1277 (S.D. Ohio 1990) (concerning arbitration clauses for international trademark and servicemark disputes).

²⁴ See, e.g., Carter, *supra* note 14, at 440-444 (describing drawbacks of arbitration); Reichert, *supra* note 6, at 395-396 (stating that reservation is due to the inability of drafting solutions to address split in court decisions); Routh, *supra* note 3, at 578 (listing unavailability of preliminary relief as reason for not using arbitration clause in particular agreement where parties may need that relief).

²⁵ See, e.g., Carter, *supra* note 14, at 443-444.

²⁶ See Arnold, *supra* note 22, at 216.

²⁷ See Arnold, *supra* note 11, at 456-457; Carter, *supra* note 14, at 441-442; Hilboldt, *supra* note 22, at 328; Reichert, *supra* note 6, at 395-396; Routh, *supra* note 3, at 578.

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refuse provisional relief, this objection cannot be resolved through careful drafting.²⁸

Various attempts have been made to draft around the failure of some courts to provide provisional remedies to arbitral parties. These include express contractual provisions authorizing provisional remedies, incorporation of arbitration rules that authorize provisional relief, contract authorization of immediate relief once arbitrators are appointed, recitations of the importance of a timely remedy and stipulations that money damages will not be an adequate remedy.²⁹ All of these drafting solutions fail when the arbitrators have not been appointed, or when the courts deny jurisdiction to hear requests for provisional relief.³⁰ Jurisdiction can not be conferred by the drafting efforts of private parties, and by definition, unappointed arbitrators cannot grant relief.

In conclusion, the general setting is very favorable, but there is a flaw that no amount of careful legal work can overcome. Some courts in the United States simply will not provide provisional remedies to arbitral parties. Because this flaw is serious and long-standing and is not likely to be overcome by Supreme Court action (Section IV, below) Congress should overrule this remnant of judicial hostility to arbitration (Section V below). Intellectual property cases clearly demonstrate the consequences of a failure of provisional remedies, and to that subject we now turn in Section III.

III. THERE IS A PECULIAR NEED FOR PROVISIONAL REMEDIES IN INTELLECTUAL PROPERTY DISPUTES, IN OR OUT OF ARBITRATION

The core element of all forms of intellectual property is the right to exclude other persons from use of the property.³¹ Trademarks, patents,

²⁸ See *infra* Section IV.

²⁹ See Reichert, *supra* note 6, at 395–396; see also *infra* notes 53–54.

³⁰ See D. Alan Redfern, *Arbitration and the Courts: Interim Measures of Protection—Is the Tide About to Turn?*, 30 TEX. INT'L L.J. 71, 76, 83 (1995).

³¹ See *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed. Cir. 1983) (patents); OECD, COMPETITION AND INTELLECTUAL PROPERTY RIGHTS 11 (1989) (“[T]he ability to exclude imitation is the most important aspect of the property rights granted to the innovator.”); see also *Zachinni v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562, 575–576 (1977) (finding that value of human cannonball performance was largely determined by ability to exclude others from broadcasting the performance without permission); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 479 (1974) (holding that states may protect intellectual property by excluding other persons from use so long as they do not contradict patent and copyright laws); *Goldstein v. California*, 412 U.S. 546, 571 (1973) (upholding state statute that prohibited acts of

trade secrets and copyrights are commercially valuable not because of any inherent value, but because a functioning legal system will protect the right of the owners to control possession and use.³²

In intellectual property disputes, where control of the use of the property is the key issue, normal legal remedies (including monetary damages, restitution and disgorgement of profits) are inadequate *because they do not preserve the exclusive use of the property*.³³ Thus, specific performance and other affirmative injunctive remedies are commonly awarded in intellectual property cases because the common legal remedies will not vindicate the property owner's rights—the remedy will not be

“piracy” in copying musical records without permission); *Int'l News Service v. Associated Press*, 248 U.S. 215, 241 (1918) (finding value of news is diminished if courts will not exclude immediate re-use by competitor); H.R. REP. NO. 104-788, *supra* note 1, at 4 (“The value of [trade secret] information is almost entirely dependent on it being closely held.”); Felix Cohen, *Dialogue on Private Property*, 9 RUTGERS L. REV. 357, 373 (1954) (“[P]roperty is a relationship [in which] the so-called owner can exclude others from certain activities or permit others to engage in those activities and in either case secure the assistance of the law in carrying out his decision.”).

³² See RICHARD POSNER, *ECONOMIC ANALYSIS OF LAW* 36-39 (3d ed. 1986) (discussing patents, trademarks and copyrights). This concept can be understood by reference to the distinction between unpatentable concepts of “pure” mathematics and the patented algorithms at the heart of advanced computer software. See *Gottschalk v. Benson*, 409 U.S. 63, 72-73 (1972) (holding that pure mathematical algorithms cannot be patented). *But see* *Arrhythmia Research Technology, Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1060-1061 (Fed. Cir. 1992) (holding that an algorithm that can be described to the Patent Office as having been incorporated in an operating system or device can be patented); *In re Iwashashi*, 888 F.2d 1370, 1374-1375 (Fed. Cir. 1989) (stating that the difference is in the manner of description of the invention in the patent claims submitted to the Patent Office). Thus, the material difference is in the willingness of legal authorities to provide protection for some claim descriptions and not others. Some algorithms are patentable inventions. *Compare* *Parker v. Flook*, 437 U.S. 584, 591-592 (1978) (holding unpatentable an algorithm that the Court deemed to be a “basic tool” of science), *with In re Walter*, 618 F.2d 758, 767 (C.C.P.A. 1980) (holding that an algorithm is patentable as part of process patent).

³³ See *In re Etter*, 756 F.2d 852, 859 (Fed. Cir. 1985) (“The essence of all property is the right to exclude . . .”); *Smith Int'l v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) (stating that purpose of injunction is to preserve exclusivity); *see also* DAN A. DOBBS, *HANDBOOK ON THE LAW OF REMEDIES* 446, 486, 697-698 (1973) (discussing inadequacy of legal damages for copyrights, trademarks and trade secrets).

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“adequate.”³⁴ Because intellectual property is intangible in its basic nature, the ability to exclude other persons from unprivileged or unlicensed possession and use of the property is the practical means of defining what is the property of one person versus other persons, and what interests can be transferred.³⁵ Intellectual property can be repeatedly sold and transferred in whole or in part because it is inherently capable of being possessed and used by more than one person at the same time.³⁶ Regimes of licensure and implied permission define the extent to which the owner of intellectual property can derive rent or other benefits from transfers of interests less than outright sale of the property.³⁷

However, an owner of intellectual property will be able to derive maximum value from the property to the extent that the owner can:

- (1) suppress the property and exclude others;³⁸

³⁴ See 15 U.S.C. § 1117 (1994) (authorizing injunctions for trademark cases); 17 U.S.C. § 502 (1994) (authorizing copyright injunctions); 35 U.S.C. § 283 (1994) (authorizing injunctions in patent cases); Economic Espionage Act of 1996, Pub. L. No. 104-924, § 1, 110 Stat. 3488 (1996) (authorizing Attorney General injunctive powers in trade secret cases); see also H.R. REP. NO. 104-788, *supra* note 1 (describing reasons for injunctive powers, including lack of adequate remedies under prior law).

³⁵ See *International News Serv. v. Associated Press*, 248 U.S. 215, 246 (1918) (Holmes J., dissenting) (“Property depends upon exclusion by law from interference . . .”); *Connell*, 722 F.2d at 1548 (citing *Schenck v. Norton Corp.*, 713 F.2d 782 (Fed. Cir. 1983) (stating that the right to exclude from use is the “essence” of the patent property)); *Cheney Bros. v. Doris Silk Corp.*, 35 F.2d 279, 280 (2d Cir. 1929) (“In the absence of some recognized right at common law, or under the statutes . . . a man’s property is limited to the chattels which embody his invention. Others may imitate these at their pleasure.”); DOBBS, *supra* note 33, at 698 (discussing how injunctions in trade secret cases serve dual purpose of defining property boundaries and providing a remedy).

³⁶ See, e.g., *White v. Samsung Elecs. of America, Inc.*, 971 F.2d 1395, 1399 (9th Cir. 1992) (living performer had right to prevent unauthorized copying of her distinctive image and identity in the form of a robot).

³⁷ See OECD, *supra* note 31, at 11 (stating that licensing can be the only source of income for an innovator that cannot itself exploit the invention). For example, licensing rules and practices for copyrights deprive owners of all claims for royalties for uses that are deemed to be “fair use,” but prohibit other forms of unlicensed uses. Trademark protection is terminated when a mark becomes generic. See RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 38-45 (4th ed. 1992).

³⁸ See 35 U.S.C. §§ 261, 271 (1994); see also *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 426-430 (1908). An illustration of this is a patentee who chooses not to practice the patent during the term of the patent grant and not to license. The right not to practice or license the patented invention is protected by the patent laws.

(2) retain use of the property and maintain control of the use by others;³⁹

(3) sell the intellectual property and warrant exclusivity;⁴⁰ or

(4) define and control the uses of the property by a number of other persons.⁴¹

Formally, the owner of intellectual property may have a complete bundle of rights and privileges. For example, an original work of art may be fully protected from any unauthorized use when the work is kept in a closet, but if it is placed on public display or sold through reproduction, control over disposition or use of the work is completely dependent on the availability of legal remedies to enforce exclusivity and other terms of agreed transactions. Put differently, the absence of a timely legal remedy to enforce an aspect of ownership practically eliminates that aspect of ownership.⁴²

For intellectual property, the availability of immediate legal remedies is vital. In the commercial arbitration context, immediately available remedies are called "provisional remedies" or "interim relief." These

³⁹ This is illustrated by an inventor who chooses not to patent, chooses not to license and secretly practices the invention, while prosecuting any theft of the trade secret.

⁴⁰ This is an assignment or an exclusive license, depending on additional terms. See 35 U.S.C. §§ 261, 271 (1994) (granting the right to assign or exclusively license a patent).

⁴¹ This is a nonexclusive license.

⁴² See, e.g., *Smith v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) (holding that irreparable harm is presumed once infringement of a valid patent is shown, because the usual legal remedies cannot restore exclusive use, which is the "principal value" of the right to exclude); *Atari, Inc. v. North American Philips Consumer Elec. Corp.*, 672 F.2d 607, 620 (7th Cir. 1982) (stating that irreparable injury is presumed in copyright cases because of the need to exclude unauthorized uses); *Frisch's Restaurants, Inc. v. Elby's Big Boy of Steubenville, Inc.*, 670 F.2d 642, 649-650 (6th Cir. 1982) (holding that irreparable harm is presumed in trademark cases when unlicensed use is shown); see also *Zachinni v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562 (1977) (permitting state to define performance as exclusive property of human cannonball actor, and to ban broadcast for commercial purposes); *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 122 (1930) ("Sharing in the goodwill of an article unprotected by patent or trademark is the exercise of a right possessed by all . . ."); *RCA Mfg. Co. v. Whiteman*, 114 F.2d 86, 88 (2d Cir. 1940) (finding that copyright consists of the power to exclude others from reproducing the copyrighted work, and does not permit an owner to prohibit radio performance of his music).

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interchangeable labels include all legal remedies that are available to define and protect the rights of parties on a temporary basis, prior to a final arbitral decision.⁴³

If a timely remedy is not available to define and enforce the exclusivity of intellectual property, much of the value of the property will evaporate. A few examples will suffice to illustrate the critical importance of provisional remedies in defining what is or is not intellectual property:

1. A secret customer list is taken without permission and utilized by a competitor. In the absence of a timely remedy to prevent competitive use, the secret customer list is merely the functional equivalent of a licensed mailing list.⁴⁴ Where damages constitute the only remedy, damages define the license fee, and the right to secret (exclusive) use is utterly lost.

2. A competitor uses a patented process without permission and undercuts the patent holder in the marketplace by selling the same product at a lower price. In the absence of a prompt remedy restoring exclusivity of use, the patentee's rights will be converted to a compulsory license to the competitor, with the fee determined by the damages award.⁴⁵

3. A "pirate" or other unauthorized manufacturer of trademarked goods operates in three countries. Country A is in political chaos and has no operating legal system. However, the pirate is identified and

⁴³ It is not possible to list all of the types of provisional relief that may be required to vindicate the contractual rights of a party. *See, e.g.,* *Ferry-Morse Seeds, Inc. v. Food Corn, Inc.*, 729 F.2d 589 (8th Cir. 1984) (requiring the continued sale of seed corn for seasonal sales); *Erving v. Virginia Squires Basketball Club*, 468 F.2d 1064 (2d Cir. 1972) (ordering that a basketball player not play for any other team); *Albatross S.S. Co. v. Mannin Bros., Inc.*, 95 F. Supp. 459 (S.D.N.Y. 1951) (ordering the arrest and seizure of vessels in admiralty proceedings). The emergence of arbitration as a means of dispute resolution in intellectual property matters has led to the recognition of the importance of provisional remedies that protect confidentiality during the arbitration process. *See* Charles S. Baldwin, IV, *Protecting Confidential and Proprietary Commercial Information in International Arbitration*, 31 TEX. INT'L L.J. 451, 460-465 (1996).

⁴⁴ *See* *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bradley*, 756 F.2d 1048, 1054 (4th Cir. 1985).

⁴⁵ *See* *Hybritech, Inc. v. Abbot Labs*, 849 F.2d 1446, 1449, 1458 (Fed. Cir. 1988) (denying injunction to enforce patent due to public health concerns); *Foster v. American Machine & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (denying injunction in favor of compulsory license scheme for equitable reasons).

brought before the legal authorities of Countries B and C, and is ordered to cease unauthorized use of the trademark in Country B. A decision of the same issue is postponed for a year in Country C. The owner of the intellectual property has no effective ownership rights in Country A and seriously eroded rights, if any, in Country C.⁴⁶

4. Company S contracts with Company W to develop a new, secret technology and to treat the jointly-developed intellectual property as the property of a joint venture. Company W attempts to sell the jointly-developed intellectual property without the consent of Company S, and a court refuses to enjoin the sale. Company S is without any effective remedy to vindicate the full value of the intellectual property rights that the venture was to create and manage.⁴⁷

5. Press Enterprise X invests large sums in collecting and analyzing current news events and transmits its reports to paying customers on a confidential basis. Competing Press Enterprise Y, with no similar investment or effort, simply repackages the reports and analyses of X as its own product and sells the same information in the same market on a brief time-delay basis. In the absence of a remedy that stops Y from exploiting the time-value of the X reports and analyses, X will have a much diminished market for its reports.⁴⁸

In each of these cases, the availability (or lack thereof) of provisional remedies will precisely define the boundaries of the property in question. A secret customer list is converted from one form of property to another when an immediate remedy for its unauthorized use is not available. A compulsorily licensed patent is narrower than a patent over which the patentee retains complete license discretion. Jointly-developed machine designs which are sold to a third party competitor are not trade secrets after the sale.

⁴⁶ This hypothetical describes a range of trademark enforcement regimes that appear to exist around the world at the present time. See Mladen Singer, *How Trademark Practitioners Perceive the Availability of Provisional Remedies for Infringement: A World-Wide Survey*, 36 IDEA 67 (1995).

⁴⁷ See generally *Sauer-Getriebe KG v. White Hydraulics, Inc.*, 715 F.2d 348 (7th Cir. 1983).

⁴⁸ See *International News Serv. v. Associated Press*, 248 U.S. 215 (1918).

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Another important feature of intellectual property is that much of the evidence of infringement of the owners' rights is ephemeral and transitory. Impermissible copies of software can be secreted, erased and transported in milliseconds.⁴⁹ Factories that manufacture counterfeit trademarked goods can shut down in one country and start up in another, leaving little or no trace of their operations. Because of the relatively short "shelf-life" of many forms of intellectual property,⁵⁰ the continued ability of unlicensed users to use the property without danger of loss from effective short term remedies greatly reduces the value of the property.⁵¹

Legal practitioners who represent owners of intellectual property understand the importance of provisional remedies.⁵² Practitioners use a variety of devices to signal to courts and arbitrators that the intellectual property in dispute is valuable *because* of the availability of timely enforcement. These devices include a stipulation that damages are not an adequate remedy for a breach of a license agreement,⁵³ and a clause directly authorizing injunctions and other affirmative relief.⁵⁴

⁴⁹ See H.R. REP. NO. 104-788, *supra* note 1, at 5 (citing reasons for new criminal penalties for trade secret theft).

⁵⁰ See H.R. REP. NO. 97-542, *supra* note 4, at 13 (stating that one advantage of patent arbitration is speed of proceedings as compared to litigation).

⁵¹ Fashion dictates the brief seasons of demand for musical intellectual property. When a compact disc is in demand for ninety days and demand then plummets, the ability of a copyright holder to exploit all markets for ninety days (without being undercut by unlicensed copying) will define the commercial value of the copyrighted music. See H.R. REP. NO. 94-1476, at 106 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5721 (stating that the exclusive rights of owner of copyrighted music are limited and do not include right to bar imitated or simulated performances).

⁵² See, e.g., Charles Hunnicut et al., *Report to the Washington Foreign Law Society on the UNCITRAL Model Law on International Commercial Arbitration*, 3 OHIO ST. J. ON DISP. RESOL. 303, 312-315 (1988) (discussing that a committee of practitioners reported on a need for change in provisional remedies law).

⁵³ See Jill S. Riola, *Drafting the Software Licensing Agreement*, in PATENT LITIGATION 1995, 233, 243 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 418, 1996) (noting that model software license includes stipulation to lack of adequate legal remedies and irreparable harm); Steven M. Weinberg, *The Basics of the Law and Business of Licensing*, in PATENT LITIGATION 1996, at 63, 66 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 445, 1996) (noting that model agreement includes clauses stipulating to irreparable harm, inadequate remedy at law and propriety of injunctive relief).

⁵⁴ See, e.g., *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bradley*, 756 F.2d 1048, 1051 n.1 (4th Cir. 1985) (quoting contract authorizing injunctive relief prior to arbitration); Reichert, *supra* note 6, at 395-396 (suggesting such a clause).

Yet another indication of the importance of provisional remedies in defining what is valuable in intellectual property can be found in recent state enactments regarding arbitration. The different states of the United States compete to attract arbitration business and research and development investments.⁵⁵ Several of the recently enacted state laws on international commercial arbitration plainly authorize the entry of provisional remedies as a form of assistance to the arbitrators and the parties.⁵⁶ Those jurisdictions that have studied the competitive international market for r&d investments have concluded that commercial disputes will be better resolved in an environment where provisional remedies are available.⁵⁷

The formal, published rules that govern commercial arbitrations in interstate and international commerce reflect the universal favorable judgment of experienced parties and institutions in regard to provisional remedies.⁵⁸ The rules uniformly provide that the parties to an arbitration may control provisional remedies through their contracts, and may seek provisional remedies from courts without detracting from their commitment to arbitrate.⁵⁹ The most recently adopted rules, those of the World

⁵⁵ See William P. Mills, III, *State International Arbitration Statutes and the U.S. Arbitration Act: Unifying the Availability of Interim Relief*, 13 FORDHAM INT'L L.J. 604, 646 (1990); George K. Walker, *Trends in State Legislation Governing International Arbitration*, 17 N.C. J. INT'L L. & COM. REG. 419, 459-460 (1992).

⁵⁶ See Walker, *supra* note 55, at 432-433 & n.48.

⁵⁷ See Mills, *supra* note 55, at 636 (discussing new state laws for international arbitration).

⁵⁸ See AAA COMMERCIAL RULES, Rule 34; AAA INTERNATIONAL RULES, Rule 22(3); AAA PATENT RULES, Rule 33; ICA RULES, Art. 8(5) (1988); AAA SECURITIES RULES, Rule 10; INTER-AMERICAN COMMERCIAL ARBITRATION COMMISSION RULES, Art. 26(3); NASD CODE OF ARBITRATION, § 32(d)(1); NYSE Arb. Rule 619(d)(1); UNCITRAL RULES, Article 26(1); Uniform Arbitration Act § 20(d)(1) (authorizing provisional remedies); Note, 25 TEX. INT'L L.J. 43, 61 (1990) (discussing use of UNCITRAL Model Law as basis for revision of FAA, including provisional remedies); In addition to the arbitration rules discussed herein, it should also be noted that UNCITRAL adopted a Model Law on International Commercial Arbitration, 40 U.N. GAOR Supp. (no. 17) Annex I; 24 I.L.M. 1302 (1985). Article 17 of the UNCITRAL Model Law specifically authorizes courts to enter provisional relief at the request of arbitral parties. See 24 I.L.M. at 1302-1313.

⁵⁹ The primary reasons that the arbitration rules are uniform in this area are (1) institutions such as the AAA or the ICA can take weeks or months to identify and appoint appropriate panels of expert arbitrators, and (2) some provisional remedies must be available against recalcitrant parties who use delay and noncooperation as a cover for continuing violations of the material rights of other parties. See KLAUS P. BERGER,

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Intellectual Property Organization (WIPO), expressly approve of the use of provisional remedies in intellectual property disputes.⁶⁰

A. Analysis of the Reported Cases of Intellectual Property Arbitration

Finally, the reported cases involving provisional remedies and arbitration strongly demonstrate the value of those remedies for the continued vitality of intellectual property. Review of the cases shows that, without provisional remedies to prevent opportunistic erosion and destruction of intellectual property, a commitment to arbitrate intellectual property disputes in the United States could be a poor strategic choice for investors in intellectual property.

Leading provisional remedy cases will be discussed from each field of intellectual property. In the field of trade secrets, the leading case is *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bradley*,⁶¹ which involved an employee who took vital trade information to a competitor. In the area of trademarks and service marks, the case of *Compuserve, Inc. v. Vigny International Finance Ltd.*⁶² will serve as the example.

The dependence of patents on provisional remedies will be discussed using *Ferry-Morse Seed Co. v. Food Corn, Inc.*,⁶³ which involves a licensed type of seed. Provisional remedies in copyright matters will be discussed using the facts of *Performance Unlimited v. Questar Publishing, Inc.*⁶⁴

The international aspects of intellectual property disputes will be illustrated through two cases that involved allegations that American companies had agreed to arbitration as a binding contract remedy, but then

INTERNATIONAL ECONOMIC ARBITRATION 347-351 (1993) (explaining overarching role of courts in maintaining and enforcing arbitral parties' essential rights before and during arbitration). Just as the courts serve an essential role in compelling arbitration by recalcitrant parties, they also serve an essential role in preserving the parties' material rights (as defined by contract) pending appointment and hearing before the arbitral tribunal. See *Bradley*, 756 F.2d at 1053-1054 (noting that in the absence of injunctive relief for trade secrets, the arbitration would be a "hollow formality").

⁶⁰ See WORLD INTELLECTUAL PROPERTY ORGANIZATION: MEDIATION, ARBITRATION AND EXPEDITED ARBITRATION RULES Art. 46, reprinted in 34 I.L.M. 559, 575-576 (1995).

⁶¹ 756 F.2d 1048 (4th Cir. 1985).

⁶² 760 F. Supp. 1273 (S.D. Ohio 1990).

⁶³ 729 F.2d 589 (8th Cir. 1984).

⁶⁴ 52 F.3d 1373 (6th Cir. 1995).

engaged in unilateral destruction of the value of the underlying intellectual property before arbitration could be had. Those cases are *Sauer-Getriebe KG v. White Hydraulics, Inc.*⁶⁵ and *Klockner-Humboldt-Deutz Aktiengesellschaft, Koln v. Hewitt-Robins Division of Litton Systems, Inc.*⁶⁶ Both *Sauer* and *Klockner* demonstrate the dependence of research and development investors on provisional remedies, and how the absence of such remedies can seriously discourage investment in research and development in the United States.

1. *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bradley*⁶⁷

In this case, a securities trading firm and an account executive signed a variety of employment agreements containing numerous commitments regarding confidentiality of customer lists, customer accounts and other commercially valuable information.⁶⁸ The primary employment agreement also contained a commitment to binding arbitration of disputes before the New York Stock Exchange under its rules.⁶⁹ The agreement also provided that a preliminary injunction would be an appropriate remedy for a breach of the agreement.⁷⁰ The account executive confirmed the value of the customer information in his custody by resigning, taking the customer data with him to a competitor and beginning to solicit customers to leave Merrill Lynch.⁷¹

Despite the courts that had previously ruled that section 3 of the FAA did not authorize preliminary injunctions in very similar facts involving securities firms, the Eastern District of Virginia entered a preliminary injunction barring further use of the customer data by the former Merrill Lynch employee.⁷² The Fourth Circuit affirmed, holding that the denial of provisional remedies would reduce the arbitration process to a "hollow formality" because the former employee would have used the customer

⁶⁵ 715 F.2d 348 (7th Cir. 1983).

⁶⁶ 486 F. Supp. 283 (D.S.C. 1978).

⁶⁷ 756 F.2d 1048 (4th Cir. 1985).

⁶⁸ See *Bradley*, 756 F.2d at 1050-1051.

⁶⁹ See *id.*

⁷⁰ See *id.* at 1051 n.1.

⁷¹ See *id.* at 1051.

⁷² See *id.* at 1050 n.2 (citing such cases).

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list.⁷³ The arbitration would be a hollow formality because the arbitrators would be powerless to remedy the destruction of the employer's trade secrets, and any damage remedy would amount to no more than a license for conversion of the secrets to a marketing contact list.

2. *Compuserve, Inc. v. Vigny International Finance Ltd.*⁷⁴

Compuserve licensed Vigny as a distributor of its on-line computer services in South America and licensed the use of its trademarks, trade names and other proprietary marks.⁷⁵ The relevant agreements contained a commitment to arbitrate disputes under the rules of the International Chamber of Commerce.⁷⁶ In the agreements, Compuserve as licensor reserved the right to apply for injunctive relief against the licensee.⁷⁷ A dispute arose under the distribution and licensing agreements, and Compuserve notified Vigny of its intent to terminate the agreements.⁷⁸ Vigny then sued in federal court in Ohio for an injunction barring an alleged disconnection of service to six thousand customers in Argentina and Chile, and Compuserve countersued for injunctive relief barring Vigny from further use of its trademarks and tradename.⁷⁹

The district court ruled that the agreements contemplated provisional remedies to protect Compuserve's intellectual property and ICC arbitration to preserve all the rights of both parties.⁸⁰ Further explaining the relationship of court-ordered and arbitral remedies, the court ruled that its injunctive inquiry would "center[] upon the irreparable harm element" and would not bind the arbitrators.⁸¹

The district court's final resolution of these issues, if any, is not reported. However, it is important to note that both Vigny and Compuserve

⁷³ *Id.* at 1053–1054. Demonstrating its concern for preservation of full arbitral authority, the appeals court also noted that the arbitrators would have the authority to alter the injunction, or to eliminate it. *See id.* at 1054.

⁷⁴ 760 F. Supp. 1273 (S.D. Ohio 1990).

⁷⁵ *See Compuserve*, 760 F. Supp. at 1275.

⁷⁶ *See id.* at 1276–1277.

⁷⁷ *See id.* at 1277.

⁷⁸ *See id.* at 1275–1276.

⁷⁹ *See id.* at 1276.

⁸⁰ *See id.* at 1278.

⁸¹ *Id.* at 1282.

asserted rights to continued use of the trademarks and tradename.⁸² Both licensor and licensee had a stake in a prompt ruling and had indicated that interest in the agreements. (Presumably, it was also of some importance to the users of Compuserve/Vigny in Argentina and Chile that the district court rule on the continued use of Compuserve's intellectual property.) Thus, *Compuserve* helpfully identifies the stakeholders whose interests are affected by the presence or absence of a provisional remedy in a trademark case. Once a dispute arises, the licensor and the licensee will resort to self-help (such as unilateral disconnection of service) or other action to preserve what they view as their rights to the intellectual property. *Compuserve* demonstrates that, even in cases where the parties have specifically discussed and negotiated agreements that deal with provisional remedies, the courts should be available to preserve the material rights of all the parties until the arbitrators can act.⁸³ In the absence of a timely legal remedy, the parties' natural tendency to attempt to strengthen their positions for arbitration, or to attempt to pressure the opponent into capitulation, may result in serious erosion of the property in dispute.

3. *Ferry-Morse Seed Co. v. Food Corn, Inc.*⁸⁴

Ferry-Morse Seed Company (Ferry-Morse) entered into an exclusive license agreement with Food Corn, which gave Ferry-Morse the exclusive right to market a new strain of seed corn.⁸⁵ The license agreement also contained an arbitration clause.⁸⁶ Ferry-Morse began to market the seed corn and a dispute arose.⁸⁷ Food Corn evidently stopped supplying the seed corn immediately before a prime sales season, and Ferry-Morse applied to

⁸² See *id.* The district court observed that Compuserve could only obtain an injunction against Vigny's use by proving a proper termination of the licenses. See *id.* at 1282 n.1.

⁸³ "[A]ny injunctive relief which could be granted would be that of either maintaining or not maintaining the status quo of the parties pending said arbitration." *Id.* at 1282.

⁸⁴ 729 F.2d 589 (8th Cir. 1984).

⁸⁵ See *Ferry-Morse*, 729 F.2d at 590-591.

⁸⁶ Although the opinion does not say so, it is presumably correct that the new strain of corn was protected under the Plant Variety Protection Act, a part of the U.S. patent law system. See 7 U.S.C. §§ 2321-2583 (1994).

⁸⁷ See *Ferry-Morse*, 729 F.2d at 590.

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the district court for an injunction requiring Food Corn to continue supplying seed corn to Ferry-Morse pending arbitration.⁸⁸

It is not clear if Food Corn resisted arbitration, but the district court crafted an order requiring Food Corn to continue supplying the seed corn, prohibiting the sale of the seed to any person other than Ferry-Morse and compelling arbitration.⁸⁹ The Eighth Circuit affirmed.⁹⁰ The appeals court reasoned that without an injunction, Ferry-Morse's seed business would be irreparably harmed, the efficacy of arbitration would be "drastically impaired" and economic waste would occur.⁹¹

Because the seed corn was going to be sold to companies other than Ferry-Morse, the only "economic waste" that was in view was the nearly complete erosion of the intellectual property rights that Ferry-Morse had acquired under its exclusive license from Food Corn. Ferry-Morse, through arbitration, might have eventually obtained a damage remedy for its lost investment in marketing one particular strain of corn, but Ferry-Morse could not thereby recover its market position.

Ferry-Morse demonstrates an instance where the failure of provisional remedies would have been fatal to the existence of a form of intellectual property—in this case the exclusive license. Perhaps Food Corn could have obtained a higher price for its seed corn from another buyer, or perhaps it could have obtained other economic advantages by declining to perform its license obligations. It is even possible to suggest that Ferry-Morse could have been required to seek "cover" in the seed corn market under Article 2 of the Uniform Commercial Code.⁹² However, on the facts of this case, these economic advantages could only be achieved at the cost of dismantling the expectations of parties to exclusive licensing agreements. By saying that it was acting against "economic waste," the appeals court confirmed that it viewed the continued public validity of licensing

⁸⁸ See *id.* at 591.

⁸⁹ See *id.*

⁹⁰ See *id.* at 593. The decision is notable for the fact that it does not cite or discuss another Eighth Circuit panel's decision barring provisional remedies under the FAA, which was decided only three months before *Ferry-Morse*. See *Peabody Coalsales Co. v. Tampa Elec. Co.*, 36 F.3d 46, 47 (8th Cir. 1994) (affirming a provisional remedy); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Hovey*, 726 F.2d 1286 (8th Cir. 1984).

⁹¹ See *Ferry-Morse*, 729 F.2d at 592–593.

⁹² See U.C.C. § 2–716. If the seeds were unique, the common law remedy of replevin might have been preserved under U.C.C. § 2–716(1). See *Sedmak v. Charlie's Chevrolet, Inc.*, 622 S.W.2d 694 (Mo. App. 1981) (holding that one particular automobile is subject to replevin). Replevin is a provisional remedy available under rule 64 of the Federal Rules of Civil Procedure. See FED. R. CIV. P. 64; Reichert, *supra* note 6, at 371.

agreements for intellectual property to be a greater good than the value to be achieved by allowing the licensor to pursue a breach.

4. Performance Unlimited v. Questar Publishing, Inc.⁹³

In 1989, an agreement was entered between Performance, as the owner of certain copyrights, and Questar, as the intended publisher.⁹⁴ An arbitration clause called for binding arbitration before three arbitrators chosen through a drawn-out series of mediations, prayers and ad hoc selection of arbitrators by the parties. Publication and royalty payments commenced, and a dispute arose in the summer of 1994.⁹⁵ Questar ceased payment of royalties to Performance, instead choosing to place the royalties in an escrow account opened in July 1994.⁹⁶ Suit was filed by Performance seeking a preliminary injunction to force the payment of royalties during arbitration. The preliminary injunction was denied.⁹⁷

The appeals court reversed and remanded for entry of an injunction requiring the payment of a portion of the royalties sufficient to maintain Performance as a viable business during the arbitration.⁹⁸ The court held that injunctive relief was essential to prevent Questar from using the escrow mechanism to deprive Performance of the value of the copyright agreement.⁹⁹ By strategic use of the escrow option, Questar minimized its exposure to a damage award while at the same time exerting tremendous financial pressure on Performance, which needed the royalties to stay in business.

Performance Unlimited demonstrates the need for provisional remedies in copyright disputes that are subject to arbitration. While a hard-bitten commercial attorney might have drafted an arbitration clause that would not involve extensive bilateral cooperation in selection of an arbitration panel, many such ad hoc arbitration contracts exist.¹⁰⁰ While the parties attempted

⁹³ 52 F.3d 1373 (6th Cir. 1995).

⁹⁴ See *Performance Unlimited*, 52 F.3d at 1376.

⁹⁵ See *id.* at 1377.

⁹⁶ See *id.* at 1375-1376.

⁹⁷ See *id.* at 1377.

⁹⁸ See *id.* at 1386.

⁹⁹ See *id.*

¹⁰⁰ Permanent institutional arbitrators such as the American Arbitration Association can take time to appoint a panel, and the availability of provisional remedies can be

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to resolve the dispute under the contract, the licensee took advantage of the delay and attempted to force a rearrangement of property rights through the escrow device. Having permitted publication for five years, the copyright owner could not vindicate its property other than through the courts. Because the intellectual property was in the joint possession of both parties, only a provisional remedy could restore the material rights of both parties pending the arbitration.

5. Sauer-Getriebe KG v. White Hydraulics, Inc.¹⁰¹

Sauer-Getriebe arose from a dispute between White Hydraulics, an Indiana corporation, and Sauer-Getriebe, a German partnership, over the benefits of a joint venture operating in the United States.¹⁰² The joint venture agreement specified that the parties' jointly-created intellectual property (trade secrets, patents, know-how) was assigned to Sauer-Getriebe in forty-five countries.¹⁰³ The parties also elected binding arbitration in London under the rules of the International Court of Arbitration (ICA) in Paris.¹⁰⁴ In evident contravention of the agreement, White allegedly began negotiating to sell the joint venture's intellectual property to a third party.¹⁰⁵

Sauer-Getriebe filed suit in the federal district court in Indiana requesting a preliminary injunction pending arbitration.¹⁰⁶ The district court denied the preliminary injunction and enjoined the German partnership from proceeding with the ongoing arbitration.¹⁰⁷ Having denied any effective remedy to Sauer-Getriebe, the district court made adverse findings of fact, holding that its findings were binding on any eventual arbitrators and ordered the selection of a new arbitrator.¹⁰⁸

The Seventh Circuit reversed each of these rulings.¹⁰⁹ Finding that the ICA rules allowed provisional remedies, the appeals court held that the

important to allow time for the selection of unbiased experts to be carried out. *See Redfern, supra* note 30, at 83.

¹⁰¹ 715 F.2d 348 (7th Cir. 1983).

¹⁰² *See Sauer-Getriebe*, 715 F.2d at 349.

¹⁰³ *See id.*

¹⁰⁴ *See id.*

¹⁰⁵ *See id.*

¹⁰⁶ *See id.*

¹⁰⁷ *See id.* Evidently, the district court judge believed that filing a demand for arbitration in Paris was inconsistent with arbitration in London.

¹⁰⁸ *See id.* at 350-351.

¹⁰⁹ *See id.* at 352.

district court had no lawful basis for denial of injunctive relief. The appeals court also ruled that the trial court had no power to interfere with the arbitration conducted by the ICA in Paris or London, or to bind the arbitrators in factual or remedial matters.¹¹⁰ Specifically finding that Sauer-Getriebe's intellectual property rights would be undone without injunctive relief, the appeals court directed the district court to enter an injunction blocking the attempted sale.¹¹¹

The utter failure of injunctive relief in the U.S. trial court in *Sauer-Getriebe* illustrates the importance of that form of relief to any person considering the location of a research and development joint venture in the United States. Were the district court's remarkable set of rulings to become the prevailing law, German and American companies would be well-advised not to site in the United States any competitively valuable research and development.¹¹² Competitively valuable research and development is, by definition, vulnerable to theft or other diversion of the intellectual property developed by the project.¹¹³ Because arbitrators sitting in London could not expect to halt illegal acts in the United States without the assistance of an American court,¹¹⁴ the refusal of American courts to protect intellectual property rights would greatly erode those rights. The availability of an eventual monetary award against the Indiana corporation, which would presumably be enforceable under the New York Convention, would be a hollow remedy. Sauer-Getriebe would have a damage award where instead it should have had all the lawful, long-term commercial advantages (in forty-five countries) that were designed to flow from the joint venture.¹¹⁵

The *Sauer-Getriebe* case also illustrates the pressing need for clarity in the law governing provisional remedies; the Germans should not have had

¹¹⁰ See *id.* at 351-352.

¹¹¹ See *id.* at 350.

¹¹² The solution of situating the joint venture in the United States and not electing arbitration would expose the joint venture to all of the features of the U.S. legal system that are unattractive to international investors. However, Congress has established a public policy of allowing actors in interstate or international commerce to choose the extent to which their legal disputes are grist for the mills of American courts. See *Scherk v. Alberto-Culver*, 417 U.S. 506, 510-511 (1974).

¹¹³ See generally H.R. REP. NO. 104-788, *supra* note 1.

¹¹⁴ See Born, *supra* note 10, at 813-823.

¹¹⁵ See *Sauer-Getriebe*, 715 F.2d at 351-352 (providing analysis of irreparable harm).

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to wait for relief from the Seventh Circuit, and the defaulting party should not have been able to confuse the issues in the district court with arguments about provisional remedies.

6. Klockner-Humboldt-Deutz Aktiengesellschaft v. Hewitt-Robins Division of Litton Systems, Inc.¹¹⁶

An intellectual property license agreement was entered into by a German and an American company concerning manufacturing processes for a crushing device. An ICA arbitration clause was included in the parties' agreements.¹¹⁷ At the conclusion of the agreed term, the American company continued to use the now unlicensed intellectual property to manufacture a device that competed with that offered by the German company.¹¹⁸ After receiving evidence of continued infringement, the district court concluded that effective provisional remedies were not available in the arbitration proceedings¹¹⁹ and enjoined any further infringing uses of the intellectual property.¹²⁰

The *Klockner* case fully illustrates the need for provisional remedies to preserve intellectual property rights in arbitration. For whatever reason, provisional relief was not available from the arbitral panel. In the absence of an effective provisional remedy, the arbitral panel can be assumed to be prepared to award monetary damages for unlicensed use, but this simply means that the owner of the intellectual property has been compelled to involuntarily share the intellectual property in the United States, and that the arbitrators have set the fee for the use. *Klockner* is especially clear on this point, as the license agreement had expired, and a monetary damage award would have served as a fee for an involuntary extension.

The foregoing cases, from *Bradley* to *Klockner*, demonstrate that intellectual property is subject to severe erosion of its content if provisional remedies are not available. In each of these cases, the courts had available complete bodies of law to define the parties' rights, and but for the parties' commitment to arbitration, would have had no difficulty providing

¹¹⁶ 486 F. Supp. 283 (D.S.C. 1978).

¹¹⁷ See *id.* at 284 n.1.

¹¹⁸ See *id.* at 285.

¹¹⁹ See *id.* at 284 n.1. The court did not explain this holding, or the added statement that certain tort causes of action were not appropriate for arbitration. See *id.*

¹²⁰ See *id.* at 287-288.

provisional relief.¹²¹ Were it not for the misunderstanding of the FAA and the New York Convention in a minority of U.S. courts, there would be no need for statutory amendment. However, as explained in the next section, that misunderstanding is serious and unlikely to be resolved by the Supreme Court.

IV. THE FEDERAL ARBITRATION ACT AND THE NEW YORK CONVENTION EMPOWER U.S. COURTS TO PROVIDE PROVISIONAL RELIEF IN ARBITRATION MATTERS

The FAA was enacted in 1925 for the primary purpose of overcoming the jealousy of courts, which had steadfastly refused to enforce agreements to arbitrate.¹²² Within ten years of enactment, the Supreme Court decided two cases under the FAA, and in each case the Court reinforced the pro-arbitration policies embedded in the statute. In the first case, *Marine Transit Corp. v. Dreyfus*,¹²³ the Court explained in some detail that the lower courts should fully implement the jurisdictional mandate of the statute and support the statutory command to refer parties to arbitration, rather than court processes, when the parties had consented to arbitration in writing.¹²⁴

In the second, more important case, *The Anaconda v. American Sugar Refining Co.*,¹²⁵ the Court dealt with a claim that a court-ordered pre-arbitration attachment of a sea-going barge was improper, even though the district court that ordered the attachment also referred the parties to arbitration. The Supreme Court unanimously turned away the argument that the district court was unable to order attachment of the vessel. The Supreme Court held that the district court had jurisdiction and equitable authority over the attachment dispute under section 3 of the FAA,¹²⁶ and

¹²¹ See, e.g., *Guinness-Harp Corp. v. Jos. Schlitz Brewing Co.*, 613 F.2d 468, 472 (2d Cir. 1980) (discussing equitable factors); *Knorr Brake Corp. v. Harbil*, 556 F. Supp. 489, 494 (N.D. Ill. 1983); *Janmort Leasing, Inc. v. Econo-Car Int'l, Inc.*, 475 F. Supp. 1282, 1294-1296 (E.D.N.Y. 1979).

¹²² See 9 U.S.C. §§ 1-15 (1988); H.R. REP. NO. 68-96, at 1-2 (1924) (stating purpose of Act to overrule common law hostility to arbitration); S. REP. NO. 68-536, at 1-2 (1924).

¹²³ 284 U.S. 263 (1932).

¹²⁴ See *id.* at 274-275.

¹²⁵ 322 U.S. 42 (1943).

¹²⁶ See *id.* at 44-45. The text of section 3 is as follows:

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had the substantive power to order a seizure of a maritime vessel, in aid of arbitration, under section 8 of the FAA.¹²⁷

The Court's analysis is so straightforward and plainly stated that the significance of the multiple holdings has not always been recognized. The Court held that Congress had provided jurisdiction under section 3 of the FAA for entry of the provisional remedy of attachment and for consideration of a motion to compel arbitration.¹²⁸ There is every reason to believe that the Supreme Court would have vacated the order attaching the barge if jurisdiction under section 3 of Article III was not plain on the face of the pleadings.¹²⁹ Thus, *The Anaconda* stands for the proposition that district courts have the statutory power to enter provisional remedies under the FAA.¹³⁰

The first appeals court opinion addressing provisional remedies after *The Anaconda* arose in the Second Circuit. *Murray Oil Products Co. v. Mitsui & Co. Ltd.*¹³¹ concerned an award of provisional relief to a United States company that was in dispute with a Japanese supplier of oil. Relying on *The Anaconda* and the plain provisions of the FAA, Judge Learned Hand ruled that the provisional relief provided by the trial court was consistent with the intent to arbitrate and with expeditious arbitration, and that the provisional relief also made it more likely that the arbitration would be successful.¹³²

After this initial Second Circuit case, there have been six opinions of the Second Circuit affirming the entry of provisional remedies under the

If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement, providing the applicant for the stay is not in default in proceeding with such arbitration.

9 U.S.C. § 3 (1988).

¹²⁷ See *The Anaconda*, 322 U.S. at 44–45.

¹²⁸ See *id.* at 45–46.

¹²⁹ See *Levering & Garrigues Co. v. Morrin*, 289 U.S. 103 (1933); *Louisville & Nashville R.R. Co. v. Mottley*, 211 U.S. 149 (1908).

¹³⁰ See *Andros Compania Maritima, S.A. v. Andre & Cie*, 430 F. Supp. 88, 92 (S.D.N.Y. 1977) (following *The Anaconda* despite later cases rejecting provisional remedies under FAA).

¹³¹ 146 F.2d 381 (2d Cir. 1944).

¹³² See *id.* at 384.

FAA.¹³³ A majority of district court decisions in the Second Circuit have followed the rule of *The Anaconda* and *Murray Oil*.¹³⁴

Published orders in the First, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth and Tenth Circuits have affirmed the availability of provisional remedies under the FAA.¹³⁵ The D.C. Circuit and the Federal Circuit seem not to have addressed the issue.¹³⁶ In one case, the Fifth Circuit suggested that the availability of a status quo injunction may be

¹³³ See *Blumenthal v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 910 F.2d 1049, 1052 (2d Cir. 1990); *Roso-Lino Beverage Distrib. Co. v. Coca-Cola Bottling Co.*, 749 F.2d 124, 125 (2d Cir. 1984); *Connecticut Resources Recovery Auth. v. Occidental Petroleum Corp.*, 705 F.2d 31, 35 (2d Cir. 1983); *Sperry Int'l Trade, Inc. v. Government of Israel*, 689 F.2d 301, 303 (2d Cir. 1982); *Guinness-Harp Corp. v. Joseph Schlitz Brewing Co.*, 613 F.2d 468, 472 (2d Cir. 1980); *Erving v. Virginia Squires Basketball Club*, 468 F.2d 1064, 1066-1067 (2d Cir. 1972). One Second Circuit case accepted the availability of provisional remedies, but reversed the district court's order requiring a party to post security during an arbitration. See *Greenwich Marine v. S.S. Alexandra*, 339 F.2d 901, 903-904 (2d Cir. 1965).

¹³⁴ Nonmaritime cases include *JAB Indus., Inc. v. Silex S.P.A.*, 601 F. Supp. 971, 979 (S.D.N.Y. 1985) (holding that provisional remedies are not generally available); *Klein Sleep Prods., Inc. v. Hillside Bedding Co.*, 563 F. Supp. 904, 906-907 (S.D.N.Y. 1982); *Janmort Leasing, Inc. v. Econo-Car Int'l, Inc.*, 475 F. Supp. 1282, 1294 (E.D.N.Y. 1979). Maritime cases include *Cordoba Shipping Co. v. Maro Shipping Ltd.*, 494 F. Supp. 183, 188 (D. Conn. 1980); *Andros Compania Maritima, S.A. v. Andre & Cie*, 430 F. Supp. 88, 92-93 (S.D.N.Y. 1977); *Coastal States Trading, Inc. v. Zenith Navigation*, 446 F. Supp. 330, 341 (S.D.N.Y. 1977); *Albatross S.S. Co. v. Mannin Bros., Inc.*, 95 F. Supp. 459 (S.D.N.Y. 1951); *The Sydfold*, 25 F. Supp. 662 (S.D.N.Y. 1938).

¹³⁵ See *Performance Unlimited, Inc. v. Questar Publishers, Inc.*, 52 F.3d 1373, 1377-1380 (6th Cir. 1995); *Peabody Coalsales Co. v. Tampa Elec. Co.*, 36 F.3d 46, 47 (8th Cir. 1994); *Smith, Barney, Harris, Upham & Co. v. Robinson*, 12 F.3d 515, 521 (5th Cir. 1994); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Salvano*, 999 F.2d 211, 214 (7th Cir. 1993); *Ortho Pharmaceutical Corp. v. Amgen, Inc.*, 882 F.2d 806, 812 (3rd Cir. 1989); *PMS Distrib. Co., Inc. v. Huber & Suhner, A.G.*, 863 F.2d 639, 642 (9th Cir. 1988); *RGI, Inc. v. Tucker & Assoc., Inc.*, 858 F.2d 227, 230 (5th Cir. 1988); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Dutton*, 844 F.2d 726, 727-728 (10th Cir. 1988); *Teradyne, Inc. v. Mostek Corp.*, 797 F.2d 43, 51 (1st Cir. 1986); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bradley*, 756 F.2d 1048, 1052 (4th Cir. 1985); *Ferry-Morse Seed Co. v. Food Corn, Inc.*, 729 F.2d 589, 593 (8th Cir. 1984).

¹³⁶ The author could not locate cases addressing provisional remedies under the patent arbitration statute.

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dependent on a contractual clause requiring the parties to maintain the status quo during arbitration.¹³⁷

A published decision in the Eighth Circuit and an unpublished order in the Tenth Circuit hold that no provisional remedies may be provided under the FAA.¹³⁸ These cases, and a few district court cases,¹³⁹ assert that once a court has ordered the parties to proceed to arbitration, the court is divested of jurisdiction under the FAA. These cases do not follow the Supreme Court's ruling in *The Anaconda*, and all of them appear to be incorrect.

A few state courts have ruled on the availability of provisional remedies under the FAA. The state appeals courts are divided, with New York, Florida and Texas adhering to a rule against provisional remedies,¹⁴⁰ and a handful of other states favoring provisional remedies under the FAA.¹⁴¹ These state cases are important, not only because New York, Florida and Texas are major commercial states, but also because of the apparent frequency with which arbitrations occur in those states.¹⁴² The split

¹³⁷ See *RGI, Inc. v. Tucker & Assoc., Inc.*, 858 F.2d 227, 230 (5th Cir. 1988).

¹³⁸ See *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Hovey*, 726 F.2d 1286, 1292 (8th Cir. 1984) (citing *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Scott*, No. 83-1480 (10th Cir. May 12, 1983)). As noted in note 90, *supra*, there are two published panel decisions in the Eighth Circuit that either do not cite or distinguish the *Hovey* decision, and which affirm provisional remedies under the FAA.

¹³⁹ See *Protane Gas Co. v. Sony Consumer Prod. Co.*, 613 F. Supp. 215, 218-219 (D.P.R. 1985); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Shubert*, 577 F. Supp. 406, 407-408 (M.D. Fla. 1983); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. DeCaro*, 577 F. Supp. 616, 623-625 (W.D. Mo. 1983); *Smith v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 575 F. Supp. 904, 905 (N.D. Tex. 1983); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Thomson*, 574 F. Supp. 1472, 1478-1479 (E.D. Mo. 1983).

¹⁴⁰ See *Korn v. Ambassador Homes, Inc.*, 546 So. 2d 756, 757 (Fla. Dist. Ct. App. 1989); *Cooper v. Ateliers de la Motobecane, S.A.*, 442 N.E.2d 1239, 1243 (N.Y. 1982); *Galtney v. Underwood, Nenhaus and Co.*, 700 S.W.2d 602, 604 (Tex. App. 1985); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Maghsoudi*, 682 S.W.2d 593, 595 (Tex. App. 1984); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. McCollum*, 666 S.W.2d 604, 609 (Tex. App. 1984).

¹⁴¹ See *Davenport v. Blue Cross of California*, 60 Cal. Rptr. 2d 641, 649 (Cal. Ct. App. 1997); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. District Court of Denver*, 672 P.2d 1015, 1018 (Colo. 1983); *Langston v. National Media Corp.*, 617 A.2d 354, 357-358 (Pa. Super. Ct. 1992).

¹⁴² These same states have adopted statutes to provide provisional remedies in international arbitrations, evidently because they wish to attract international arbitration business. See *Walker*, *supra* note 55, at 419 n.1 (Texas and Florida) and n.46 (New

between the New York state courts and the federal courts in the Second Circuit can also lead to fairly gross cases of forum shopping.¹⁴³

A. Tendency to Avoid Review in Supreme Court Due to Passage of Time and Decision by Arbitrators

The issue of the availability of provisional relief under the FAA is one which frequently arises but tends to evade review by the Supreme Court. By the time trial and appeals court proceedings are complete and a certiorari petition has been filed, the vast majority of commercial arbitrations are completed or settled. Thus, despite the urging of a number of commentators over the years, there has been no Supreme Court ruling on this issue in sixty-three years, and it seems unlikely that the Court will have an opportunity to address the matter in the normal course of commercial arbitration.¹⁴⁴

Thus, under the FAA, there is a minor division in the federal and state appeals courts on the availability of provisional remedies. Even in the minority of the circuits where provisional remedies are in doubt, there is substantial authority for enforcing express provisions in contracts which call for such remedies. Although a majority of the courts have followed the statute and the Supreme Court's ruling in *The Anaconda* in favor of provisional remedies, some courts simply will not provide the remedies to arbitral parties.

York legislative act attempted to overrule *Cooper v. Ateliers de la Motobecane*, with doubtful success).

¹⁴³ *Sperry Int'l. Trade, Inc. v. Government of Israel*, 670 F.2d 8 (2d Cir. 1982) and *Sperry Int'l. Trade, Inc. v. Government of Israel*, 689 F.2d 301 (2d Cir. 1982) together describe an extended minuet in the state and federal courts of New York involving provisional remedies and a \$10 million letter of credit. The final ruling of the Second Circuit affirmed the power of the arbitrators to resolve the entire issue, regardless of the numerous rulings in state and federal court. See *Sperry*, 689 F.2d at 306-307.

¹⁴⁴ See *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. McCollum*, 469 U.S. 1127, 1130-1131 (1985) (White, J., dissenting from denial of certiorari).

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B. A Majority of Courts Provide Provisional Relief Under the New York Convention

The Third and Fourth Circuits have ruled that provisional remedies are not available under Article II(3) of the New York Convention.¹⁴⁵ The leading case denying provisional remedies is *McCreary Tire & Rubber Co. v. CEAT, S.p.A.*¹⁴⁶ The *McCreary* case involved a Pennsylvania corporation in dispute with an Italian corporation over the interpretation of a distribution agreement for trademarked goods. The agreement called for final and binding arbitration under the rules of the International Court of Arbitration. The Italian corporation successfully moved in federal district court in Massachusetts for an order compelling arbitration. The Pennsylvania corporation filed in state court in Pennsylvania for attachment of funds of the Italian corporation, which were in the possession of Mellon Bank in Pennsylvania. The state court issued the attachment and after removal to the Western District of Pennsylvania, the district court denied a motion to dissolve the attachment. At the time the district court refused to dissolve the attachment, the ICA arbitration had already commenced.¹⁴⁷

The Third Circuit held that the Pennsylvania district court erred in taking any action after the parties had been ordered to arbitrate. Other than dissolving the improper attachment, the district court had no power to order provisional relief because Article II(3) of the Convention required that the parties be immediately referred to arbitration. The Third Circuit reasoned that allowing provisional remedies would encourage the bypassing of arbitration.¹⁴⁸ Without analysis, the Fourth Circuit followed *McCreary* on this same point a few years later.¹⁴⁹

The *McCreary* decision is wrong. The ICA Rules that the parties elected in their contract specifically provide that the parties may seek

¹⁴⁵ That Article provides:

The Court of a Contracting State, when seized of an action in a matter in respect of which the parties have made an agreement within the meaning of this article, shall, at the request of one of the parties, refer the parties to arbitration, unless it finds that the said agreement is null and void, inoperative or incapable of being performed.

Convention on the Recognition & Enforcement of Foreign Arbitral Awards, June 10, 1958, art. 3, 21 U.S.T. 2519, 2519.

¹⁴⁶ 501 F.2d 1032, 1032 (3d Cir. 1974).

¹⁴⁷ See *id.* at 1033-1035.

¹⁴⁸ See *id.* at 1036-1037.

¹⁴⁹ See *I.T.A.D. Assoc., Inc. v. Podar Bros.*, 636 F.2d 75, 77 (4th Cir. 1981).

provisional or interim relief from courts, and that such action is not in derogation of ICA arbitration.¹⁵⁰ Thus, a party cannot "bypass" ICA arbitration by resorting to a court for provisional relief. Moreover, it is clear that the national delegations that negotiated the New York Convention intended to allow provisional remedies.¹⁵¹ A number of commentators have pointed out that, of all the courts to address the issue of provisional remedies under the New York Convention, only a minority of American courts have decided to deny provisional assistance to arbitral parties.¹⁵² All appellate decisions in other countries have ruled that the New York Convention permits provisional relief.¹⁵³

The majority of American courts that have addressed the issue of provisional remedies under the New York Convention have disagreed with the Third and Fourth Circuits.¹⁵⁴ Thus, in *Borden, Inc. v. Meiji Milk*

¹⁵⁰ ICA Article 8(5) provides that parties may resort to a "judicial tribunal" for provisional relief without violating their promise to arbitrate. *See Sauer-Getriebe KG v. White Hydraulics, Inc.*, 715 F.2d 348, 350 (7th Cir. 1983) (interpreting same rule).

¹⁵¹ *See* Brower, *supra* note 10, at 1004-1021.

¹⁵² In addition to the Third and Fourth Circuit cases cited above, *see McDonnell-Douglas Corp. v. Kingdom of Denmark*, 607 F. Supp. 1016, 1020 (E.D. Mo. 1985) finding that *McCreary* requires dismissal for lack of jurisdiction. *See also Siderius, Inc. v. Compania de Acero del Pacifico*, 453 F. Supp. 22, 24-25 (S.D.N.Y. 1978) (holding that *McCreary* requires dismissal); *Metropolitan World Tanker Corp. v. P.N. Pertamina Minjakdongas Bumi Nasional*, 427 F. Supp. 2, 4 (S.D.N.Y. 1975) (finding that *McCreary* requires vacation of attachment).

¹⁵³ *See, e.g., Scherk Enterprises Aktiengesellschaft v. Societe des Grandes Marques, Cass.*, 1977, 1979 Y.B. Com. Arb., 286 (Italy) (awarding provisional remedies under New York Convention in trademark dispute).

¹⁵⁴ In addition to the federal appeals court decisions cited in the text, a number of district courts and state courts have held that provisional remedies are consistent with the Convention. *See, e.g., Remy Amerique Inc. v. Touzet Distrib. S.A.R.L.*, 816 F. Supp. 213, 218 (S.D.N.Y. 1993); *Filantro, S.p.A. v. Chilewich Int'l Corp.*, 789 F. Supp. 1229, 1241 (S.D.N.Y. 1992) (stating that *McCreary* is "facially absurd"); *Compuserve, Inc. v. Vigny Int'l Finance Ltd.*, 760 F. Supp. 1273, 1281 (S.D. Ohio 1990); *Tennessee Imports, Inc. v. Filippi*, 745 F. Supp. 1314, 1329-1330 (M.D. Tenn. 1990); *Atwood Navigation, Inc. v. M/V Rizal*, CIV.A. 89-1221, 1989 WL 16306, at *5 (E.D. Pa. Feb. 24, 1989) (limiting *McCreary* to nonadmiralty cases); *Rogers, Burgun, Shahine & Deschler, Inc. v. Dongsan Constr. Co.*, 598 F. Supp. 754, 758 (S.D.N.Y. 1984); *Construction Exporting Enter. v. Nikki Maritime Ltd.*, 558 F. Supp. 1372, 1375 (S.D.N.Y. 1983); *Tampimex Oil Ltd. v. Latina Trading Corp.*, 558 F. Supp. 1201, 1202-1203 (S.D.N.Y. 1983); *Paramount Carriers Corp. v. Cook Indus., Inc.*, 465 F. Supp. 599, 602 (S.D.N.Y. 1979); *Atlas Chartering Serv. v. World Trade Group, Inc.*, 453 F. Supp. 861, 863 (S.D.N.Y. 1978); *Companiade Navegacion y*

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Products Co.,¹⁵⁵ the Second Circuit refused to follow *McCreary* in a dispute arising from a trademark license agreement between an American and a Japanese company.¹⁵⁶ The Fifth Circuit also declined to follow *McCreary* in the 1989 case of *E.A.S.T., Inc. v. M/V ALAIA*,¹⁵⁷ where it affirmed the arrest of a vessel as security for an eventual arbitration award. The Seventh Circuit held in *Sauer-Getriebe KG v. White Hydraulics, Inc.* that a provisional remedy was essential to preservation of the rights of a German company engaged in a joint venture with an American company, and that the rules of the ICA specifically allowed injunctive relief pending arbitration.¹⁵⁸

1. *Provisional Relief Has Proved its Value in Intellectual Property Cases*

As demonstrated in the extended discussion above, the preservation of prime dispute for arbitrators is the fundamental rule underlying a provisional remedy.¹⁵⁹ The second rule is that the parties' material rights must be preserved pending action by the arbitrators, even if this means entry of an order requiring supervision by a court.¹⁶⁰

Financiera Bosnia, S.A. v. National Unity Marine Salvage Corp., 457 F. Supp. 1013, 1015 (S.D.N.Y. 1978); *Andros Compania Maritima, S.A. v. Andre & Cie*, 430 F. Supp. 88, 92 (S.D.N.Y. 1977); *Carolina Power & Light Co. v. Uranex*, 451 F. Supp. 1044, 1051 (N.D. Cal. 1977); *see also* *Ledee v. Ceramiche Ragno*, 684 F.2d 184, 187 (1st Cir. 1982) (stating that Convention requires international standards of enforcement in all courts).

¹⁵⁵ 919 F.2d 822 (2d Cir. 1990).

¹⁵⁶ Other Second Circuit cases holding that provisional remedies are available under the Convention are *David L. Threlkeld & Co. v. Metallgesellschaft Ltd.*, 923 F.2d 245, 248-249 (2d Cir. 1991) and *Drys Shipping Corp. v. Freights*, 558 F.2d 1050, 1052 (2d Cir. 1977).

¹⁵⁷ 876 F.2d 1168 (5th Cir. 1989).

¹⁵⁸ *See Sauer-Getriebe KG v. White Hydraulics, Inc.*, 715 F.2d 348, 349-351 (7th Cir. 1983).

¹⁵⁹ *See Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Salvano*, 999 F.2d 211, 215-216 (7th Cir. 1993); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bradley*, 756 F.2d 1048, 1053-1054 (4th Cir. 1985); *Marchetto v. DeKalb Genetics Corp.*, 711 F. Supp. 936, 939-940 (N.D. Ill. 1989).

¹⁶⁰ *See Ortho Pharmaceutical Corp. v. Amgen, Inc.*, 882 F.2d 806, 815 (3d Cir. 1989); *PMS Distrib. Co., Inc. v. Huber & Suhner, A.G.*, 863 F.2d 639, 641 (9th Cir. 1988); *Roso-Lino Beverage Corp. v. Coca-Cola Bottling Co.*, 749 F.2d 124, 126 (2d Cir. 1984).

In all cases where provisional relief is deemed appropriate, the relief must be measured and tailored to the precise dispute. For example, it must end when arbitrators order it to end, and must not attempt to bind the arbitrators or the parties; but it must also maintain secrecy or commercial confidentiality during the arbitration if that is needed.¹⁶¹

All of the appellate courts that have addressed the issue have agreed that the availability of provisional remedies should be subject to the right of commercial parties to define or exclude arbitral action.¹⁶² Thus, the courts find that provisional remedies are appropriate in default of any contract clause, but that the remedies are not mandatory.¹⁶³

2. Analyzing the Policy Arguments Against Provisional Remedies

Those courts that have denied the propriety of provisional remedies for arbitral parties have advanced six policy arguments to support their rulings.¹⁶⁴ These arguments are:

1. The essential nature of voluntary arbitration is inconsistent with judicial interference.¹⁶⁵

¹⁶¹ See *Peabody Coalsales Co. v. Tampa Elec. Co.*, 36 F.3d 46, 48 (8th Cir. 1994); *Sauer-Getriebe*, 715 F.2d at 349-351 (7th Cir. 1983); *Andros Compania Maritima S.A. v. Andre & Cie*, 430 F. Supp. 88, 93 (S.D.N.Y. 1977).

¹⁶² See *Erving v. Virginia Squires Basketball Club*, 468 F.2d 1064, 1066 (2d Cir. 1972); *Remy Amerique Inc. v. Touzet Distrib.*, 816 F. Supp. 213, 215 (S.D.N.Y. 1993).

¹⁶³ See *RGI, Inc. v. Tucker & Assoc.*, 858 F.2d 227, 230 (5th Cir. 1988) (suggesting the need for contractual authorization of provisional remedies).

¹⁶⁴ The arguments are analyzed under these same categories in Brower, *supra* note 10, at 983-986; see also Cynthia Jean Butler, Note, *The Propriety of Judicially Granted Provisional Relief in Pending Arbitration Cases*, 9 OHIO ST. J. ON DISP. RESOL. 145, 154-159 (1993).

¹⁶⁵ See *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Hovey*, 726 F.2d 1286, 1292 (8th Cir. 1984) (stating that judicial inquiry relative to merits will invade province of arbitrator assigned by parties); *McCreary Tire & Rubber Co. v. CEAT, S.p.A.*, 501 F.2d 1032, 1038 (3d Cir. 1974) (stating that court will not permit "bypass" of arbitration); *Cooper v. Ateliers de la Motobecane*, 442 N.E.2d, 1239, 1243 (N.Y. 1982); Butler, *supra* note 164, at 154 (arguing that arbitration is consensual and contractual).

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2. Attachment and other coercive, pre-award remedies are not normally needed, as most parties comply with arbitration awards.¹⁶⁶

3. An award may be enforced in any signatory nation under the New York Convention.¹⁶⁷

4. Private arbitral parties may contract for security through performance bonds.¹⁶⁸

5. Subjecting foreign parties to U.S. courts and law is contrary to the policy favoring uniform, international, private arbitration.¹⁶⁹

6. If U.S. courts provide provisional remedies, then foreign courts will do the same and thereby subject American businesses to foreign courts and remedies.¹⁷⁰

These policy concerns are misplaced. Addressing each in reverse order, U.S. companies already benefit from the availability of provisional remedies in every major commercial arbitration situs around the world.¹⁷¹ The reciprocal availability of remedies fails only in some U.S.

¹⁶⁶ See *Cooper*, 442 N.E.2d at 1242. The reverse of this theme is provided by Neil E. McDonnell, *The Availability of Provisional Relief in International Commercial Arbitration*, 22 COLUM. J. TRANSNAT'L. L. 273 (1984), where it is asserted that the courts should be careful not to encourage parties to circumvent or delay arbitration by judicial consideration of provisional remedies. See *id.* at 273, 289. This illustrates the point that while many parties may voluntarily comply throughout the arbitration process, others will take advantage of the opportunity to confuse and delay the process. For those parties' arbitral partners, provisional remedies may be the only means of preserving the status quo pending an arbitral remedy. See, e.g., *Performance Unlimited, Inc. v. Questar Publishers, Inc.*, 52 F.3d 1373, 1376 (6th Cir. 1995).

¹⁶⁷ See *Cooper*, 442 N.E. 2d at 1242.

¹⁶⁸ See *id.*

¹⁶⁹ See *id.* This argument is elaborated in Andrew S. Holmes, *Pre-Award Attachment Under the U.N. Convention on the Recognition and Enforcement of Foreign Arbitral Awards*, 21 VA. J. INT'L L. 785, 792 (1981) and John B. Yellot, Jr., *Attachment Under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards*, 36 WASH. & LEE L. REV. 1135, 1141-1142 (1979).

¹⁷⁰ See *McCreary*, 501 F.2d at 1038 (stating that state-by-state procedural variations should be avoided in international arbitrations); *Cooper*, 442 N.E.2d at 1243.

¹⁷¹ See *Survey of International Arbitration Sites* (J. Stewart McClendon ed., American Arbitration Ass'n 1993) [hereinafter McClendon Survey].

jurisdictions.¹⁷² International arbitration practice supports provisional remedies for arbitral parties and is not undermined by consideration of such remedies before arbitrators are appointed.¹⁷³

Suggesting that arbitral parties contract for performance bonds if they want security in contracts is a complete negation of the freedom to choose the extent to which arbitration is utilized to reduce the costs of contracting and of dispute resolution.¹⁷⁴

The second and third policy objections to provisional remedies are based on the assertion that the "normal" arbitration award is either voluntarily complied with, or is enforceable under the New York Convention. These arguments are logically flawed in that the presumed intent of the "normal" party is no basis for establishing rules of procedure to govern all cases.¹⁷⁵ Moreover, a provisional remedy is normally needed against a recalcitrant party and serves to preserve the fundamental issues for the arbitrator. Provisional remedies are especially important during the period before appointment of the arbitrator, when the parties' intent to comply with an eventual order is speculative at best.¹⁷⁶

The remaining policy argument concerns the voluntary "essence" of arbitration and its supposed inconsistency with judicial "interference" through provisional remedies. The argument is based on the false premise that there is a binary, either/or separation between court and arbitral processes. Either there is arbitration or there is "bypass." All private arbitration is contractual and thus is dependent on court processes for

¹⁷² See Kevin J. Brody, Note, *An Argument for Pre-Award Attachment in International Arbitration Under the New York Convention*, 18 CORNELL INT'L L.J. 99, 111 n.74 (1985).

¹⁷³ The international arbitration rules that support provisional remedies are discussed *supra*, note 58. The enforcement of remedies awarded by arbitrators is outside the scope of this paper. For a discussion of the complexities of that subject, see BORN, *supra* note 10, at 813-823.

¹⁷⁴ See Brower, *supra* note 10, at 984 n.80. Moreover, a performance bond or a standby letter of credit backing performance will not necessarily avoid the dispute or the need for provisional remedies. See *Sperry Int'l Trade v. Government of Israel*, 689 F.2d 30 (2d Cir. 1982) (discussing provisional remedies dispute in arbitration over standby letter of credit provided as form of security).

¹⁷⁵ By the same reasoning, injunctions would not be available to enforce school desegregation orders because the "normal" state or local official will obey legal rulings.

¹⁷⁶ See Charles N. Brower & W. Michael Tupman, *Court-Ordered Provisional Measures Under the New York Convention*, 80 AM. J. INT'L L. 24, 33-34 (1986).

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compulsion and enforcement.¹⁷⁷ Under the “essence” objection, courts would not order arbitration,¹⁷⁸ the appointment of arbitrators¹⁷⁹ or the attendance of witnesses.¹⁸⁰

The essence of arbitration is not arbitral exclusivity, but a mix of judicial and arbitral authority, which the FAA and the New York Convention define in some detail. The “essence” argument disregards this mix and does not address at all those cases where the parties to an arbitration agreement expressly authorize judicial provisional relief, thus illustrating that arbitration is not purely private.¹⁸¹ Where an arbitration contract bars any resort to court, the FAA plainly requires a court to refuse a request for provisional remedies, but that exception should not bar all such remedies.¹⁸²

Because these policy objections are misplaced, the refusal of provisional remedies to arbitral parties amounts to hostility to arbitration, which Congress should address.

V. CONGRESS SHOULD CLARIFY THE AVAILABILITY OF PROVISIONAL RELIEF

The first needed statutory change is to amend section 3 of the FAA,¹⁸³ dealing with arbitrations in interstate commerce, to add the following at the end of that section:

¹⁷⁷ See BERGER, *supra* note 59, at 347–351.

¹⁷⁸ But see 9 U.S.C. §§ 4, 206 (1994).

¹⁷⁹ But see 9 U.S.C. § 5 (1994).

¹⁸⁰ But see 9 U.S.C. § 9 (1994).

¹⁸¹ See, e.g., *Compuserve, Inc. v. Vigny Int'l Finance Ltd.*, 760 F. Supp. 1273 (S.D. Ohio 1990). One writer extends the “essence” argument by asserting that state court entry of provisional remedies which are not expressly authorized by contract is an “impairment” of contract under the United States Constitution. See Butler, *supra* note 164, at 157. This assertion is incorrect for several reasons. As acknowledged in this Note, the FAA and the New York Convention are not state laws under the Contracts Clause. See *id.* at 157 n.79. Moreover, through the FAA, Congress made additional remedies for enforcement of arbitration contracts, and the statute has been in place since 1925. Contracts are presumed to be subject to the contract remedy laws in force at the time they are created. See *United States Trust Co. of New York v. New Jersey*, 431 U.S. 1, 19 n.17 (1977). Thus a contract entered in the last 72 years could not even theoretically be impaired by the FAA.

¹⁸² Section 4 of the FAA, requires the courts to enforce an arbitration agreement “according with the terms thereof.” See 9 U.S.C. § 4 (1994).

¹⁸³ See *supra* note 126 for current text of section 3.

Prior to the appointment of an arbitrator, provisional or interim relief may also be ordered by the court, except where excluded by the written agreement of the parties. Any order for provisional or interim relief will be subject to the appointed arbitrator's power to alter or withdraw such relief.

This amendment to section 3 would overrule the minority of courts that have interpreted the FAA as not permitting courts to entertain motions for provisional relief. It would also preserve the parties' freedom to restrict or prohibit requests for provisional remedies and otherwise enlist the courts in supporting arbitration to the extent that the parties have elected that form of dispute resolution. The other statutory amendment should occur in chapter 2 of the FAA, which implements the New York Convention in the United States Code. Section 206 of the FAA is the counterpart of section 3 for international arbitrations and should have the same additional sentences added at its end.¹⁸⁴

A. Policy Arguments Favoring Clarification

1. The Argument from Legal Certainty

The policy arguments in support of the proposed amendments follow from the discussion of the current state of commercial arbitration law and practice. Parties entering into contracts for arbitration of disputes should know whether their agreements will be enforced while their preferred arbitration machinery is being engaged. Legal certainty, to the extent that a legal system can provide certainty, is a basis for the most efficient allocation of resources through private contracts and private negotiations. Parties entering into international contracts can elect to arbitrate their

¹⁸⁴ The current text of section 206, with the additional text in italics, is as follows:

A court having jurisdiction under this chapter may direct that arbitration be held in accordance with the agreement at any place therein provided for, whether that place is within or without the United States. Such court may also appoint arbitrators in accordance with the provisions of the agreement. *Prior to the appointment of an arbitrator, provisional or interim relief may also be ordered by the court, except where excluded by the written agreement of the parties. Any order for provisional or interim relief will be subject to the appointed arbitrator's power to alter or withdraw such relief.*

9 U.S.C. § 206 (1994) (with suggested amendment in italics).

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disputes in other countries in order to obtain a desired level of certainty. The original intent of the New York Convention was clearly to provide provisional remedies through national courts in any signatory country.¹⁸⁵ Thus, legal certainty was to have been obtained originally through uniform international law. Because the United States is the only signatory country where an appellate court has declined to support provisional remedies,¹⁸⁶ it is up to the United States to correct the problem.

The costs of the present level of uncertainty include needless expenditures of attorney's fees and other transaction and litigation costs, which may cause commercial arbitration parties to seek non-United States fora for arbitration. Given the intense competition between sites for arbitration,¹⁸⁷ the parties may well decide to avoid the additional costs that may be incurred through uncertainty.

Another instance of waste caused by the split in U.S. legal authorities is the forum shopping within U.S. jurisdictions that occurs when parties have committed to arbitration in the United States. Because the federal district courts of Delaware, Pennsylvania, New Jersey, Maryland, Virginia, West Virginia, North Carolina and South Carolina must refuse provisional remedies under the New York Convention,¹⁸⁸ a party that believes a provisional remedy is necessary in a particular case will work strenuously to avoid those courts and find a way to file suit in other districts. This is a wasteful expenditure of resources that could be avoided by a uniform national rule.

Of course, it could be argued that legal certainty would also be served by a rule prohibiting arbitration parties from seeking provisional remedies in any court. This certainty is not desirable, however, because it would amount to a return to the pre-1925 era of hostility to arbitration. So long as parties to business disputes avoided arbitration, provisional relief would be

¹⁸⁵ See Brower, *supra* note 10, at 1009-1020.

¹⁸⁶ See generally McClendon Survey, *supra* note 171 (reporting that Australia, 16, Canada, 32, Egypt, 38, France, 45, Germany, 53, Japan, 64, Malaysia, 73, Mexico, 80, Netherlands, 87, Singapore, 94, Sweden, 100, Switzerland, 107 and the United Kingdom, 115 have provisional remedies available to arbitral parties). The United States is reported as a jurisdiction of doubtful certainty on this issue. See *id.* at 123, 137; Brody, *supra* note 172 (collecting cases from various countries).

¹⁸⁷ See McClendon Survey, *supra* note 171.

¹⁸⁸ These are the states in the Third and Fourth Circuits. The federal district courts in those states are bound by *McCreary Tire & Rubber Co. v. CEAT S.p.A.*, 501 F.2d 1032, 1032-1037 (3d Cir. 1974) and *I.T.A.D. Assocs., Inc. v. Podar Bros.*, 636 F.2d 75, 77 (4th Cir. 1981).

available from a court. This is *precisely* the type of court refusal to support the choice of arbitration that Congress overruled in 1925.¹⁸⁹

2. *Argument from Comparative U.S. Economic Advantage*

The need for provisional remedies in commercial arbitration, subject to control by the contracting parties, has been affirmed by the judgment of drafters of treaties, arbitration rules, recent state legislation and model arbitration acts.¹⁹⁰ When advising on the location of business operations in which the reliable development and exploitation of intellectual property is a material factor, careful attorneys would be well-advised to counsel avoidance of jurisdictions where provisional remedies are not available. As demonstrated in the discussion in Section III, jurisdictions that refuse such remedies can not adequately protect the exclusive use rights of intellectual property stakeholders.

The lack of clearly available provisional remedies may now discourage owners of emergent forms of intellectual property from basing full exploitation of the property in the United States. Certainly, any investor (or counsel) who has read some of the court decisions discussed above would seek to draft an agreement that would avoid a jurisdiction that refused such remedies.¹⁹¹ However, the drafting solutions identified to date are incomplete at best.¹⁹² To the extent that owners of intellectual property are influenced by flaws in national legal systems, a correction of this flaw

¹⁸⁹ See *supra* note 122 for legislative history of FAA.

¹⁹⁰ See generally *supra* Section III.

¹⁹¹ This might be done by specifying that the arbitration agreement is governed by the New York Convention and that the only permissible venue for arbitration would be New York City. This would situate the arbitration hearing in the Second Circuit, but it would not prevent a recalcitrant opposing party from filing a blocking action in New York state court, which would then be removed, or in a jurisdiction where provisional remedies are not available. See, e.g., *Sperry Int'l Trade, Inc. v. Government of Israel*, 689 F.2d 301, 302 (2d Cir. 1982) (describing numerous New York state actions removed to federal court during arbitration); *McCreary*, 501 F.2d at 1033 (describing actions in district court in Massachusetts and Pennsylvania); see also *Brower*, *supra* note 10, at 1002-1003; Reichert, *supra* note 6, at 695-696.

¹⁹² See *supra* notes 53-54 and accompanying text.

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would serve to encourage the location of new intellectual property investments in the United States.¹⁹³

Intellectual property stakeholders would be encouraged to situate new r&d investments in the United States because of (1) the increased likelihood that full protection of all aspects of intellectual property would occur in the event of opportunistic behavior by an opponent; (2) a contractual election for or against provisional remedies by commercial parties would be honored, thus permitting the most knowledgeable persons to control the uses of the property;¹⁹⁴ (3) emergent and experimental forms of intellectual property, which would appear to be the most sensitive to erosion and destruction through loss of confidentiality, would be fully protected;¹⁹⁵ (4)

¹⁹³ To protect industries that are dependent on intellectual property, in the Economic Espionage Act of 1996, Congress took the extraordinary step of authorizing the Attorney General to seek civil injunctive remedies as well as criminal penalties against actions that illegally compromise trade secrets. See Economic Espionage Act of 1996, Pub. L. No. 104-294 § 1, 110 Stat. 3488 (1996); H.R. REP. NO. 104-788, *supra* note 1, at 13-14 (describing need for injunctive power); see also J.T. Westermeyer, Jr., *Two New Laws Aid Attorneys in Combating Trade Secret Theft*, 13 COMPUTER L. STRATEGIST 1, 3 (1996) (describing new injunctive powers).

¹⁹⁴ As drafted, the proposed statutory amendments would permit contracting arbitral parties to bar courts from entertaining suits for provisional remedies. This is a default rule, meaning that it would apply in the absence of an election by the parties. This is common in arbitration legislation and is the central premise of the FAA, which requires the courts to enforce arbitration contracts according to their terms. See 9 U.S.C. § 4 (1994).

¹⁹⁵ A comparison to section 365(m) of the Bankruptcy Act may be appropriate in support of this policy argument. Section 365(m) was enacted by Congress to overrule an unfortunate decision of the Fourth Circuit in *Lubrizol Enter., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985). See Pub. L. No. 100-506 § 1(b), 102 Stat. 2538 (1988). The *Lubrizol* decision allowed a trustee in bankruptcy to treat intellectual property licenses as executory contracts that the trustee could affirm and perform, or disaffirm and not perform, to the extent that the trustee deemed performance to be profitable to the bankruptcy estate. Congress reversed this ruling by enacting section 365(m). In so doing, Congress explained its views of the importance of intellectual property in the developing American economy, and the role of courts in upholding the expectations of parties to intellectual property agreements through specific enforcement:

Licensing of technology, which the bill is intended to protect and to facilitate, plays a substantial role in the process of technological development and innovation. That process begins with an inventive concept and must proceed through an expensive and risky series of steps including research, development, manufacturing and marketing. At each step, both money and additional refinement of the idea are required. Often, the financing and additional refinement are only available through the participation of persons other than the original innovator.

the availability of provisional remedies will discourage theft, diversion and counterfeiting of intellectual property by third parties acting in concert with employees or agents of contracting parties;¹⁹⁶ and (5) the ephemeral and easily-transported nature of intellectual property which strongly suggests that there may be a need for rapid court action to preserve evidence or to buttress the secret aspects of the property.¹⁹⁷

Licensing provides the mechanism by which the original innovator can retain sufficient ownership of his innovation Licensing also provides a mechanism whereby the innovator who has identified more than one domain in which his invention may have application can seek partners In order to assure the continued availability of the intellectual property against the contingency of the creator's bankruptcy, however, the party seeking the intellectual property for limited use must demand assignment If the creator is unwilling to assign, in some instances, transactions simply are not completed The bill corrects the perception of some courts that Section 365 was ever intended to be a mechanism for stripping innocent licensee[s] of rights central to the operations of their ongoing businesses and stripping the American licensing system of its dependability and flexibility.

S. REP. NO. 100-505, at 3-4 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3202, 3203.

The effect of section 365(m), in addition to overruling *Lubrizol*, is to empower federal bankruptcy courts to specifically enforce intellectual property licenses in bankruptcy, and to order the trustee in bankruptcy to perform license obligations. *See id.* at 11-14 (letter from Commerce Department General Counsel in support of S.1626 was enacted as section 365(m)).

There is a strong practical comparison between the lack of specific enforcement of intellectual property licenses under *Lubrizol*, and the lack of provisional remedies for arbitration in some U.S. courts. Congress should be equally impressed with the need to correct the flaw in the FAA, as it has similar damaging consequences for the U.S. intellectual property system.

¹⁹⁶ *See, e.g.,* Klockner-Humboldt-Deutz Aktiengesellschaft v. Litton Systems, Inc., 486 F. Supp. 283, 283 (D.S.C. 1978).

¹⁹⁷ This argument is strongly supported by analogy to the undisputed availability of provisional remedies in domestic or international maritime arbitrations. *See* Colleen C. Higgins, *Interim Measures in Transnational Maritime Arbitration*, 65 TUL. L. REV. 1519 (1991) (describing clear availability of provisional remedies in maritime matters). Ships and vessels are inherently movable, and the evidence in a particular dispute is likely to disperse when a ship's crew reaches port and disperses. *See, e.g.,* E.A.S.T., Inc. v. M/V ALAIA, 876 F.2d 1168 (5th Cir. 1989). Thus, provisional remedies such as attachment and seizure can secure the immediate cooperation of all parties in taking steps to preserve evidence and secure assets and thereby prevent a recalcitrant party from rendering the eventual arbitral ruling a useless exercise.

3. *Argument from Obligations of International Law*

As discussed above,¹⁹⁸ the original intent of the parties who drafted the New York Convention of 1958 was to support the uniform availability of provisional remedies in national courts. Appellate courts in other countries have ruled that provisional remedies are available to arbitral parties.¹⁹⁹ Of the courts that have addressed the issue, it appears that only a minority of U.S. courts has withheld such remedies.²⁰⁰ As a result, the United States is not in full compliance with the New York Convention, despite the intentions of Congress to fully implement the Convention.²⁰¹ By enacting the proposed amendments, Congress can restore a uniform national and international rule of law.

A number of commentators have pointed out that the North American Free Trade Agreement (NAFTA) contains a chapter dedicated to intellectual property issues, and that a provision is included that requires signatory countries to strengthen provisional remedies.²⁰² The United States

¹⁹⁸ See Brower, *supra* note 10, at 1004–1021.

¹⁹⁹ See, e.g. Scherk Enterprises Aktiengesellschaft v. Societe des Grandes Marques, Cass., 1977, 1979 Y.B. Com. Arb., 286 (Italy); Note, *The Use of Pre-judgment Attachments and Temporary Injunctions in International Commercial Arbitration Proceedings: A Comparative Analysis of the British and American Approaches*, 50 U. PITT. L. REV. 667 (1989) (collecting British cases); McClendon Survey, *supra* note 171 (surveying numerous countries).

²⁰⁰ See *supra* note 152 and accompanying text.

²⁰¹ See Scherk v. Alberto-Culver, 417 U.S. 506, 510–511 (1974) (describing Congressional intent to fully implement New York Convention).

²⁰² Article 1716 of NAFTA requires the signatory countries to provide provisional remedies in intellectual property cases. See Robert Holleyman, *Software Piracy Abroad: Challenges and Opportunities*, in PLI'S SECOND ANNUAL INSTITUTE FOR INTELLECTUAL PROPERTY LAW 419, 441 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 453, 1996) (noting that NAFTA requires provisional remedies to enforce patent rights); Gregory C. Ludlow, *The Impact of NAFTA/WTO (GATT) TRIPS Chapters on Trademark and Copyright Law: A Canadian Perspective*, in GLOBAL TRADEMARK AND COPYRIGHT 1996: MANAGEMENT AND PROTECTION 71, 73 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 455, 1996); International Trade Info. Corp., *Pharmaceuticals*, 4 No. 7 MEX. TRADE & L. REP. 24, 27 (1994); I. Fred Konigsberg & Joan T. Pinaire, *Impact of International Copyright Developments in U.S. Practice*, in GLOBAL TRADEMARK AND COPYRIGHT 523, 544 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 393, 1994); Bruce Zagaris & Alvaro J. Aguilar, *Enforcement of Intellectual Property Protection Between Mexico and the United States: A Precursor of Criminal Enforcement for Western Hemisphere Integration?*, 5 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 41, 106–107 (1994).

has ratified both the General Agreement on Tariffs and Trade (GATT)²⁰³ and the related Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), including trade in counterfeit goods.²⁰⁴ Article 50 of the TRIPS Agreement requires each national party to provide provisional remedies to enforce and protect intellectual property rights.²⁰⁵ Thus, although different jurisdictions have widely varying provisional remedies for intellectual property,²⁰⁶ those nations that commit to compliance with TRIPS will be required to address provisional remedies under article 50. The United States is required to provide a uniform national rule in its courts in order to comply with article 50 and can do so by enacting the amendments proposed above.²⁰⁷ From the perspective of compliance with international legal obligations already assumed by the United States, Congress should amend the FAA to clarify and unify the law of provisional remedies.

²⁰³ See General Agreement on Tariffs and Trade—Multilateral Trade Negotiations (The Uruguay Round): Final Act Embodying the Results of the Uruguay Round of Trade Negotiations, Dec. 15, 1993, 33 I.L.M. 1.

²⁰⁴ See *id.* at 83.

²⁰⁵ See Laturno, *supra* note 3, at 376 and n.137; J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection Under the TRIPS Component of the WTO Agreement*, 29 INT'L LAW. 345, 363 (1995). The text of TRIPS Article 50, in part, is as follows:

1. The judicial authorities shall have the authority to order prompt and effective provisional measures: (a) to prevent an infringement of any intellectual property right from occurring, and in particular to prevent the entry into the channels of commerce in their jurisdictions of goods, including imported goods immediately after customs clearance; (b) to preserve relevant evidence in regard to the alleged infringement.

2. The judicial authorities shall have the authority to adopt provisional measures *inaudita altera parte* where appropriate, in particular where any delay is likely to cause irreparable harm to the right holder, or where there is a demonstrable risk of evidence being destroyed.

33 I.L.M. 1, at 1216.

²⁰⁶ See Singer, *supra* note 46, at 67.

²⁰⁷ See Holleyman, *supra* note 202, at 441 (noting that TRIPS requires that judicial authorities have injunctive power as a provisional remedy).

VI. CONCLUSION

The costs and benefits of the proposed amendments are clear. The costs include the likelihood of occasional errors by courts that intervene in private arbitral disputes without cause or which continue to intervene after arbitrators have been appointed. This cost is minimized in the proposed amendment by limiting court powers after an arbitrator is appointed.²⁰⁸ A practice of rapid appellate review and reversal of errors would also reduce this cost to a minimum. Another cost would include the perception by some legal practitioners that arbitration is a secondary solution, later in time than a resort to court. This cost should be minimized by the existing rule that arbitration proceedings may not be stayed to allow a court to consider provisional issues.²⁰⁹ A third cost would be contractual adjustments to accommodate a newly clarified rule of provisional remedies. This is not truly an additional cost, as commercial contracts are in a constant state of flux among private parties, and only a minority of courts have adopted this rule.

The benefits to be derived include increased certainty and clarity in legal rules affecting commercial contracts and intellectual property, the availability of a legal remedy for parties that demonstrate a need and the attractions of broadened protection of intellectual property rights. As Congress examines each opportunity to improve the intellectual property system in the United States, this is an opportunity that should be acted on without delay.

²⁰⁸ See *supra* note 184 for the proposed amendment to section 206 of the FAA.

²⁰⁹ See *Sauer-Getriebe KG v. White Hydraulics, Inc.*, 715 F.2d 348, 351-352 (7th Cir. 1983).

